



COMPREHENSIVE ANNUAL FINANCIAL REPORT

**A Pension Trust Fund of the State of South Dakota
for the Fiscal Year Ended June 30, 2008**

SDRS MISSION STATEMENT

To plan, implement and administer income replacement programs, and to encourage additional savings for retirement, all of which offer SDRS members and their families the resources and the opportunity to achieve financial security at retirement, death or disability by providing an outstanding, appropriate and equitable level of benefits.

The Board of Trustees believes this mission is achievable with the resources available in a progressive working environment, by sound and efficient management, through superior investment performance and by exercising the fiduciary responsibility associated with the proper stewardship of member assets.

FISCAL YEAR 2008 HIGHLIGHTS

Total membership	71,434
Active contributing members	37,707
Inactive non-contributing members	14,406
Benefit recipients	19,321
Net assets held in trust for pension benefits	\$7,312,107,461
Actuarial value of assets	\$6,784,291,685
Actuarial accrued liability (AAL)	\$6,976,811,927
Investment return	(8.65)%
<u>Benefits and refunds paid</u>	
Benefits paid	\$ 273,236,767
Refunds paid	28,203,655
Total	\$ 301,440,422
<u>Contributions</u>	
Member	\$ 91,978,502
Employer	89,766,090
Total	\$ 181,744,592
Funding period	20 years
Funded ratio (actuarial value of assets/AAL)	97.2%



SOUTH DAKOTA RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Pension Trust Fund of the State of South Dakota
for the Fiscal Year Ended June 30, 2008

Prepared by the SDRS Finance and Audit Departments

South Dakota Retirement System
222 East Capitol, Suite 8, P.O. Box 1098
Pierre, South Dakota 57501-1098

The South Dakota Retirement System fully subscribes to the provisions of the Americans with Disabilities Act of 1990.

The South Dakota Retirement System Comprehensive Annual Financial Report is published with funds provided through the contributions of teachers, school boards, state government, state employees, county commissions, county employees, municipal governments, and municipal employees. Five hundred copies of this document were printed by SDRS at a cost of \$7.75 each per document.

All paper used for this project met or exceeded the minimum post-consumer content level requirements as indicated in the document titled "South Dakota Recycled Paper Requirements."

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CERTIFICATE OF ACHIEVEMENT

Certificate of Achievement for Excellence in Financial Reporting

Presented to

South Dakota Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Oliver S. Cox

President

Jeffrey R. Emer

Executive Director

PUBLIC PENSION STANDARDS AWARD



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2008***

Presented to

South Dakota Retirement System

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads 'Alan H. Winkle'.

Alan H. Winkle
Program Administrator

INTRODUCTION



**Member's Letter
Letter of Transmittal
Board of Trustees
Organizational Chart**

MEMBER'S LETTER

To Our Members:

While the South Dakota Retirement System (SDRS) remains financially sound with a funded status that is among the most secure in the nation, fiscal year 2008 plan experience was disappointing. The SDRS trust fund investment return was negative 8.65% and below our performance objectives for the period. SDRS, like all pension plans, has also suffered substantial investment losses since the end of the fiscal year.

SDRS assets, as of June 30, 2008, were over \$7.3 billion and the system paid approximately \$300 million in benefits during this last year. From humble beginnings back in 1974, SDRS has blossomed into a financial engine for South Dakota. Citizens in every city and county benefit from this plan. (See the Statistical section of this report for more details.)

In order to maintain long-term strength and stability, the Board of Trustees has begun a comprehensive review of SDRS's financial condition and benefit structure. The effort is designed to insure that SDRS remains viable today and throughout the foreseeable future.

During the coming months, the Board of Trustees will be studying the benefit needs of members in order to redefine the long-term benefit goals and objectives of the system. This analysis will not only consider the income provided by SDRS, but also Social Security and Medicare programs and personal savings. In addition, the costs and availability of retiree healthcare and long-term care will be considered.

SDRS also continues to focus on customer service. Our Retirement Planners assist our members every day and travel the state each week. They will be in your area some time soon. The My SDRS section of our website provides up-to-date information to help members in their retirement planning efforts and our toll-free telephone number allows members to contact SDRS at no cost.

A new workshop program, Managing Retirement Income, has been initiated to promote personal savings and retirement readiness. These workshops cover a broad spectrum of topics to aid members in planning for a successful retirement.

The financial integrity of the System and the service provided to members will continue to be the top priority of the SDRS Board of Trustees and staff, and we will continue to exercise our fiduciary responsibilities in these uncertain times. We thank you for your support and encourage you to contact the SDRS office should you need any assistance.

Sincerely,



Elmer Brinkman
Chair, SDRS Board of Trustees



Robert A. Wylie
Executive Director/Administrator

LETTER OF TRANSMITTAL

South Dakota Retirement System
222 East Capitol, Suite 8
P.O. Box 1098
Pierre, South Dakota 57501-1098
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Toll Free (888) 605-SDRS



South Dakota Retirement System

December 16, 2008

Board of Trustees
South Dakota Retirement System
Pierre, SD 57501

To the members of the SDRS Board of Trustees:

We are pleased to submit the Comprehensive Annual Financial Report of the South Dakota Retirement System (SDRS) for the fiscal year ended June 30, 2008. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with SDRS. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of SDRS' operations.

Plan History

SDRS was established July 1, 1974, as a multi-employer public employee retirement system. The plan currently provides retirement, disability and survivor benefits to over 71,000 members. Basic to SDRS' history is the growth in the system's benefit provisions.

Investments

The SDRS trust fund is managed by the South Dakota Investment Council. The most important overall objective of the Investment Council is to prudently manage the SDRS assets to achieve and exceed the returns that the broad capital markets provide over the long term.

The total return on the SDRS trust fund was (8.65) percent for fiscal year (FY) 2008, the investment council benchmark return of (4.2) percent. The 10-year annualized return of 7.4 percent exceeds the benchmark return of 6.3 percent.

History of Benefit Improvements

Benefit Category	Status in 1974	Benefit Improvements
Benefit Formula <ul style="list-style-type: none"> Class A Class A Alternate Class B Public Safety Class B Judicial 	<p>1.0%</p> <p>2.0%</p> <p>2.0%</p> <p>3.333% / 2.0%</p>	<p>1982 — 1.1%</p> <p>1986 — 1.2%</p> <p>1991 — 1.30%</p> <p>1994 — 1.30%/1.40% (for applicable years)</p> <p>1997 — 1.40% prior to 1997/1.30% thereafter</p> <p>1998 — 1.475% prior to 1998/1.30% thereafter</p> <p>1999 — 1.55% prior to 2000/1.30% thereafter</p> <p>2000 — 1.625% prior to 2002/1.30% thereafter</p> <p>2002 — 1.55% after 2002</p> <p>2008 — 1.7% prior to 2008/1.55% thereafter</p> <p>1999 — 2.25% prior to 2000/2.0% thereafter</p> <p>2000 — 2.325% prior to 2002/2.0% thereafter</p> <p>2002 — 2.25% after 2002</p> <p>2008 — 2.4% prior to 2008/2.25% thereafter less other public benefits</p> <p>1994 — 2.0%/2.10% (for applicable years)</p> <p>1997 — 2.10% prior to 1997/2.0% thereafter</p> <p>1998 — 2.175% prior to 1998/2.0% thereafter</p> <p>1999 — 2.25% prior to 2000/2.0% thereafter</p> <p>2000 — 2.325% prior to 2002/2.0% thereafter</p> <p>2008 — 2.4% prior to 2008/2.0% thereafter</p> <p>1994 — 3.333% / 3.433% (for applicable years)</p> <p>2.0%/2.10% (for applicable years)</p> <p>1997 — 3.433% prior to 1997/3.333% thereafter</p> <p>2.10% prior to 1997/2.0% thereafter</p> <p>1998 — 3.508% prior to 1998/3.333% thereafter</p> <p>2.175% prior to 1998/2.0% thereafter</p> <p>1999 — 3.583 prior to 2000/3.333% thereafter</p> <p>2.25% prior to 2000/2.0% thereafter</p> <p>2000 — 3.658% prior to 2002/3.333% thereafter</p> <p>2.325% prior to 2002/2.0% thereafter</p> <p>2008 — 3.733% prior to 2008/3.333% thereafter</p>
Class A Retiree Benefit Formula	Variable	<p>Standard — alternate</p> <p>1982 — 1.0% – 2.0%</p> <p>1987 — 1.05% – 2.0%</p> <p>1988 — 1.1% – 2.0%</p> <p>1989 — 1.25% – 2.0%</p> <p>1991 — 1.30% – 2.0%</p> <p>1994 — 1.30%/1.40% – 2.0%</p> <p>1997 — 1.40% prior to 1997/1.30% thereafter – 2.0%</p> <p>1998 — 1.475% prior to 1998/1.30% thereafter – 2.0%</p> <p>1999 — 1.55% prior to 2000/1.30% thereafter</p> <p>2.25% prior to 2000/2.0% thereafter</p> <p>2000 — 1.625% prior to 2002/1.30% thereafter</p> <p>2.325% prior to 2002/2.0% thereafter</p> <p>2002 — 1.55% after 2002</p> <p>2.25% after 2002</p> <p>2008 — 1.7% prior to 2008/1.55% thereafter</p> <p>2008 — 2.4% prior to 2008/2.25% thereafter less other public benefits</p>
Improvement Factor	2% simple	<p>1978 — 2.0% compound (indexed)</p> <p>1982 — 3.0% compound (indexed)</p> <p>1988 — 3.0% compound</p> <p>1993 — 3.1% compound</p> <p>1998 — 3.1% compound and prorated for partial years</p>
Early Retirement <ul style="list-style-type: none"> Class A 	Early retirement: age 55 with 6% per year reduction	<p>1978 — Reduction decreased to 3% per year</p> <p>1986 — Rule of 85 (age 60)</p> <p>1989 — Removed “at work” limitation</p> <p>1991 — Rule of 85 (age 58)</p> <p>1993 — Rule of 85 (age 55)</p>

LETTER OF TRANSMITTAL (CONTINUED)

History of Benefit Improvements (continued)		
Benefit Category	Status in 1974	Benefit Improvements
Early Retirement (continued) <ul style="list-style-type: none"> Class B Public Safety Class B Judicial 	<p>Early retirement: age 45 with 6% per year reduction</p> <p>Early retirement: age 55 with 6% per year reduction</p>	<p>1978 — Reduction decreased to 3% per year</p> <p>1982 — Early retirement age for new members: age 50</p> <p>1989 — Early retirement: age 45 for all Class B Public Safety members</p> <p>1991 — Age 50/25 years of service</p> <p>1998 — Rule of 75 (Age 45)</p> <p>1978 — Reduction decreased to 3% per year</p> <p>1990 — Rule of 80 (age 55)</p>
Optional Spouse Coverage	1.0% of compensation	<p>1978 — .8% of compensation</p> <p>2004 — 1.2% of compensation</p>
Final Average Compensation Caps	Last quarter cap 125% of any previous quarter; four quarter average cap 115% of any previous quarter	<p>2004 — Last quarter cap = 115% four quarter average cap = 110%</p> <p>2005 — Last quarter cap = 105% four quarter average cap = 105%</p>
Special Pay Plan	Termination pay made directly to member with SS, SDRS and income taxes deducted	2004 — Termination pay of \$2,000 or more without SS, SDRS or income tax deductions for a terminating employee of a participating unit who is 55 or older goes to SPP
Purchasing Uncredited Service <ul style="list-style-type: none"> Class A Class B Public Safety Class B Judicial 	<p>Buy at 10% of compensation</p> <p>Buy at 12% of compensation</p> <p>Buy at 12% of compensation</p>	<p>1989 — Buy at 7.5% of compensation</p> <p>2002 — Buy at 9% of compensation</p> <p>2004 — Buy at rate dependent on age and varying from 12% to 30% of compensation</p> <p>1978 — Buy at 16% of compensation</p> <p>1982 — Current members maximum of 20% of compensation; new members 16% of compensation</p> <p>1989 — Buy at 12% of compensation</p> <p>2004 — Buy at rate dependent on age and varying from 16% to 40% of compensation</p> <p>1978 — Buy at 16% of compensation</p> <p>1982 — Buy at maximum 20% of compensation</p> <p>1989 — Buy at 13.5% of compensation</p> <p>2004 — Buy at rate dependent on age and varying from 18% to 45% of compensation</p>
Contribution Rate <ul style="list-style-type: none"> Class A Class B Public Safety Class B Judicial 	<p>5%</p> <p>6%</p> <p>6%</p>	<p>2002 — 6%</p> <p>1978 — 8%</p> <p>1982 — For current members increasing 1/8 of 1% to maximum of 10%; for new members 8%</p> <p>1989 — 8% for all members</p> <p>1978 — 8%</p> <p>1982 — 1/8 of 1% to maximum of 10%</p> <p>1989 — capped at 9%</p>
Normal Retirement Age for Class B Public Safety	Age 55	<p>1982 — New members age 60</p> <p>1989 — Age 55 for all members</p>

History of Benefit Improvements (continued)		
Benefit Category	Status in 1974	Benefit Improvements
Refund of Accumulated Contributions	Member contributions only	1986 — Guaranteed refund of the balance of all employer/member contributions if member dies after retirement. 1995 — Portable Retirement Option (PRO) — for PRO members withdrawing prior to retirement, a refund of all or a percentage of employer/member contributions based on years of service 1998 — Portable Retirement Option (PRO) — for all members withdrawing prior to retirement, a refund of all or a percentage of employer/member contributions based on years of service
Interest on Accumulated Contributions	5% on member contributions only	1986 — No greater than 90% of the 91-day T-bill rate; 5% minimum, 10% maximum 2004 — No greater than 90% of the 91-day T-bill rate; maximum, the actuarially assumed rate of investment return, currently 7.75%; minimum, none.
Retire/return to work <ul style="list-style-type: none"> • Normal or special early retirement • Early retirement 	<ul style="list-style-type: none"> —Benefits, including the COLA, paid during reemployment without adjustment —Rehired member treated as continuing member —Add-on benefit paid at re-retirement considers all periods of employment <ul style="list-style-type: none"> —Benefits, including the COLA suspended during reemployment —Rehired member treated as continuing member —Add-on benefit paid at re-retirement considers all periods of employment 	2004 — Benefits paid during reemployment but COLA eliminated (except for Class B Public Safety member who is rehired as Class A member) <ul style="list-style-type: none"> — Rehired member treated as new member — Add-on benefit paid at re-retirement considers reemployment period only — Retired/rehires prior to July 1, 2004 grandfathered under current law 2004 — Benefits, including the COLA, suspended during reemployment <ul style="list-style-type: none"> — Rehired member treated as new member — Add-on benefit paid at re-retirement considers reemployment period only
Compensation Basis for Benefit Calculations	<ul style="list-style-type: none"> —Retirement benefit based on final average compensation (three-year average) —Disability and survivor benefits (for members who die before retirement) based on highest one-year pay 	2004 — All SDRS benefits (retirement, disability and survivor) based on final average compensation
Eligibility Requirements <ul style="list-style-type: none"> • Vested retirement benefits • Disability benefits 	<ul style="list-style-type: none"> —Five years of credited service that includes purchased service —Five years of credited service unless disabled in an accident at work, then no specific amount of credited service is required 	1998 — Three years of credited service including purchased service 2004 — Three years of contributory service, does not include purchased service 1998 — Three years of credited service including purchased service 2004 — Three years of contributory service since reentry into SDRS unless disabled in an accident at work, then no specific amount of contributory service is required

LETTER OF TRANSMITTAL (CONTINUED)

Funding and Reserve

Since its inception, SDRS has been funded at the actuarially determined level. In the 2008 actuarial valuation, two measures were used to evaluate the actuarial soundness and funding progress of SDRS:

- funded ratio
- funding period

The most pertinent of these is the funded ratio. This ratio is equal to the actuarial value of assets divided by actuarial accrued liability the (AAL). The AAL is the portion of the present value of benefits for all members assigned to prior periods. SDRS' funded ratio as of June 30, 2008, was 97.2 percent.

Major Initiatives

During FY 2008, the South Dakota Retirement System:

continued its strategic planning process; redefined its mission statement; established future income replacement goals; completed financial statements, an actuarial valuation, and a comprehensive audit; reviewed the actions of the 2008 legislature; analyzed benefit trends and practices for public retirement plans; and reviewed the performance of its Supplemental Retirement Plan (SRP) and Special Pay Plan (SPP).

Accounting System and Internal Control

This report has been prepared to conform with the reporting standards of the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The accrual basis of accounting is used to record assets, liabilities, revenues and expenses. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Administrative expenditure authority is granted annually by the state Legislature.

The system's internal accounting controls, which are reviewed by external auditors on an annual basis, are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Constant effort is directed by SDRS at improving this level to assure the participants of a financially sound retirement system.

This letter of transmittal is designed to complement the Management's Discussion and Analysis and should be read in conjunction with it. The SDRS MD&A can be found immediately following auditor's opinion.

Professional Services

The Board of Trustees retains independent consultants to perform professional services that are essential to the system's effective and efficient operation. Actuarial services are provided by Buck Consultants. The annual financial audit is conducted by the accounting firm of KPMG LLP with the participation of the South Dakota Department of Legislative Audit. SDRS investments are managed by the South Dakota Investment Council. Communication services are provided by Koupal

Communications, Pierre, South Dakota

Certificate of Achievement/Public Pension Standards Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the South Dakota Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2007. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. This is the 13th year that SDRS has received a Certificate of Achievement. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Public Pension Coordinating Council awarded the Public Pension Standards Award to the South Dakota Retirement System in recognition of meeting the professional standards for plan design and administration. This is the 5th year that SDRS received the award.

Acknowledgments and Comments

The preparation of this report reflects the combined efforts of the SDRS staff under the direction of the Board of Trustees. It is intended to provide complete and reliable information to members of SDRS, the South Dakota State Legislature and the citizens of South Dakota.

Respectfully submitted,



Robert A. Wylie
Administrator

Jane Roberts
Chief Financial Officer

BOARD OF TRUSTEES

**Elmer
Brinkman**
Chair

Represents county commissioners
Board service began in June 1991
Commissioner
Codington County
Watertown

Represents judicial members
Board service began in June 1995
Justice
South Dakota Supreme Court
Pierre

**Justice
Steven
Zinter**
Vice Chair

**Brian
Berglin**

Represents teachers
Board service began in July 1997
Public school teacher
Sioux Falls Public Schools
Sioux Falls

Represents public safety members
Board service began in July 2006
Lieutenant
City of Rapid City
Black Hawk

**James
Johns**

**Matt
Clark**

Represents South Dakota Investment Council
Board service began in January 2005
State Investment Officer
Non-voting ex-officio board member
Sioux Falls

Represents classified employees
Board service began in July 1990
Benefit specialist
South Dakota State University
Brookings

**Louise
Loban**

**Jason
Dilges**

Governor's appointee
Board service began in November 2004
Commissioner
Bureau of Finance and Management
Pierre

Represents Board of Regents employees
Board service began in July 2004
ABS fiscal officer
South Dakota State University
Brookings

**Darwin
Longliere**

**Cathy
Druckrey**

Represents municipal employees
Board service began in July 2007
Human Resources
City of Rapid City
Rapid City

Represents county employees
Board service began in July 1997
Chief deputy auditor
Pennington County
Rapid City

**Kathy "K.J."
Peterson**

**Laurie
Gustafson**

Represents state employees
Began board service in July 2005
Labor law compliance officer
Department of Transportation
Pierre

Represents state employees
Board service began in July 2004
Engineering supervisor
Department of Transportation
Glenham

**Eric
Stroeder**

**James O.
Hansen**

Represents retirees
Board service began in July 1993
Retired administrator
Pierre

Represents school boards
Board service began in July 2007
Member
Huron School Board
Huron

**Michael
Turnwall**

**Ray
Hofman**

Represents Elected Municipal Officials
Board service began December 2005
City Council member
City of Vermillion
Vermillion

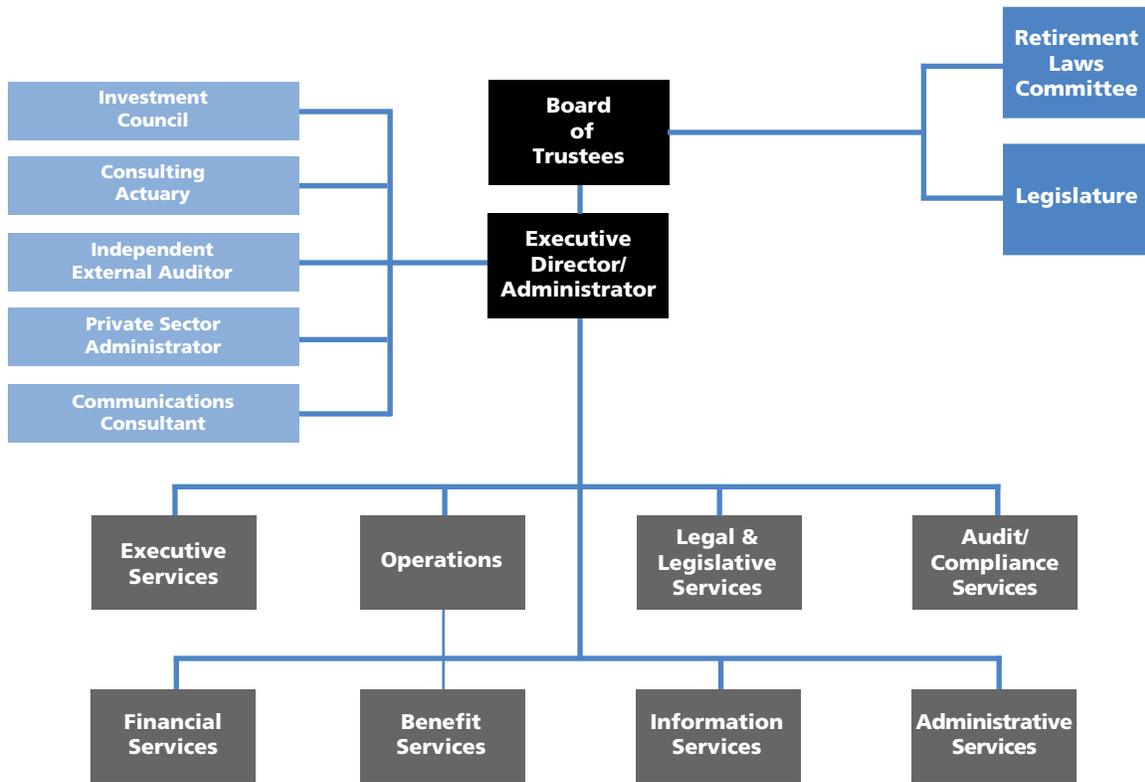
Governor's appointee
Board service began in May 1995
Commissioner
South Dakota Bureau of Personnel
Pierre

**Sandra
Zinter**

**Chuck
Holmstrom**

Represents teachers
Board service began in July 2006
Public school teacher
Sioux Falls Schools
Sioux Falls

ORGANIZATIONAL CHART



Administration

EXECUTIVE DIRECTOR/ ADMINISTRATOR	Robert A. Wylie
EXECUTIVE ASSISTANT	Dawn Smith

Management Group

DIRECTOR OF OPERATIONS	Damian Prunty
GENERAL COUNSEL	Wade A. Hubbard
CHIEF FINANCE OFFICER	Jane Roberts
RETIREMENT BENEFITS MANAGER	Travis Almond
INTERNAL AUDIT/ COMPLIANCE MANAGER	Susan Jahraus
ADMINISTRATIVE SERVICES SUPERVISOR	Lisa A. Vander Maten

Advisors, Auditors and Administrators

CONSULTING ACTUARY	Buck Consultants, Inc. Denver, CO
EXTERNAL AUDITOR	KPMG LLP Omaha, NE
COMMUNICATIONS CONSULTANTS	Koupal Communications, Inc. Pierre, SD
PRIVATE SECTOR ADMINISTRATOR	Nationwide Retirement Solutions Columbus, OH
INFORMATION SERVICES/ COMPUTER SUPPORT	S. Lee Huset (BIT) Pierre, SD
	Ivan Plett (BIT) Pierre, SD
	Scott Schroeder (BIT) Pierre, SD

FINANCIAL SUMMARY



- Auditor's Opinion**
- Management's Discussion and Analysis**
- Basic Financial Statements**
- Statement of Plan Net Assets**
- Statement of Changes in
Plan Net Assets**
- Notes to Financial Statements**
- Required Supplementary Information**
- Supporting Schedules**

AUDITOR'S OPINION



KPMG LLP

Suite 1501
Two Central Park Plaza
Omaha, NE 68102

Suite 1600
233 South 13th Street
Lincoln, NE 68508-2041

Independent Auditors' Report

The Board of Trustees
South Dakota Retirement System:

We have audited the accompanying statement of plan net assets of the South Dakota Retirement System (SDRS) as of June 30, 2008, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of SDRS's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SDRS's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements present only the financial position and changes in financial position of the State of South Dakota that is attributable to the SDRS. They do not purport to, and do not, present fairly the financial position of the State of South Dakota as of June 30, 2008, and the changes in its financial position and its cash flows, where applicable, for the fiscal year ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Dakota Retirement System as of June 30, 2008, and the changes in its plan net assets for the year then ended, in conformity with U.S. generally accepted accounting principles.

As explained in note 2 to the financial statements, the financial statements include investments valued at \$2,245,007,981 (31% of net assets) whose carrying values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 19, 2008 on our consideration of SDRS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 7, the schedule of funding progress, and schedule of employer contributions on page 27 are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of administrative expenses and investment expenses on page 28 through 29 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

Omaha, Nebraska
November 19, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the South Dakota Retirement System's (SDRS or the System) financial position and performance as of and for the year ended June 30, 2008. This section is intended to supplement the SDRS financial statements and should be read in conjunction with the remainder of the SDRS financial statements.

Financial Highlights

- The plan net assets of SDRS decreased by \$846 million during fiscal year 2008. This decrease was primarily due to the investment performance of (8.65) percent, which was below the assumed rate of 7.75 percent.
- SDRS funded ratio increased to 97.2 percent in 2008 from 97.1 percent in 2007.
- SDRS paid \$273.2 million to benefit recipients in fiscal year 2008 compared to \$253.5 million in 2007. SDRS received \$181.7 million in member and employer contributions in fiscal year 2008 compared to \$172.3 million in 2007.

Overview of the Financial Statements and Accompanying Information

The basic financial statements consist of:

Financial Statements

The South Dakota Retirement System presents the statement of the plan net assets as of June 30, 2008 and the statement of changes in plan net assets for the year then ended. These statements reflect resources available for the payment of benefits as of the year-end and sources and uses of those funds during the year.

Notes to the Financial Statements

The notes to the financial statements are an integral part of the financial statements and provide additional detailed information and schedules. Information in the notes provides disclosures concerning SDRS' organization, contributions and reserves, investments, the use of derivatives and security lending, and other information.

Supplemental Information

In addition to this discussion and analysis, the supplemental information also consists of two schedules of trend data and related notes concerning the funded status of SDRS and employer contributions.

Other supplementary schedules include detailed information on administrative expenses incurred by SDRS and a breakout of investment manager fees.

Financial Analysis

SDRS is a cost sharing, multiple employer, public employee retirement system. SDRS provides retirement, disability, and survivor benefits for employees of the state of South Dakota and its political subdivisions. The benefits are funded through member and employer contributions and investment income.

SDRS benefits are based on the members' final average compensation, their years of credited service, and a benefit multiplier and are payable for life with a 60 percent survivor benefit.



A summary of the plan net assets is shown below:

Assets	2008	2007
Cash and cash equivalents	\$ 5,963,982	\$ 5,149,376
Receivables	60,568,165	49,330,523
Investments, at fair value	7,374,351,658	8,229,937,564
Securities lending collateral	321,644,668	592,844,187
Other assets	45,725	57,194
Total assets	\$7,762,574,198	\$8,877,318,844
Liabilities		
Accounts payable and accrued expenses	\$ 2,569,051	\$ 2,304,581
Securities sold, but not yet purchased	90,627,779	99,633,085
Unsettled investment purchases	35,462,682	23,749,695
Securities lending collateral	321,644,668	592,844,187
Due to brokers	162,557	618,620
Total liabilities	\$ 450,466,737	\$ 719,150,168
Net assets held in trust for pension benefits	<u>\$7,312,107,461</u>	<u>\$8,158,168,676</u>

Summary of Plan Net Assets

June 30, 2007 and 2008

The funded ratio is an actuarial measure of funding progress and soundness for SDRS based on the actuarial accrued liability measurement of liabilities. The ratio is equal to the actuarial value of assets divided by the actuarial accrued liabilities. A ratio in excess of 100 percent would indicate that the actuarial accrued liability is fully funded.

The actuarial value of assets is equal to the net actuarial value of assets plus the reserve of funding of long-term benefit goals. The net actuarial value of assets is credited each year with the assumed rate of investment return and debited or credited with the SDRS liability gain or loss for the year. The resulting actuarial value of assets is constrained to a range of 80 percent to 120 percent of the market value of assets, and the reserve for funding of long-term benefit goals is adjusted if these limits apply.

The actuarial accrued liability is the present value of all benefits currently being paid and expected to be paid in the future, to all members, less the present value of future normal cost contributions.

	Actuarial Accrued Liability Funded Ratio		
	2007	2008	Change
Funded ratio	97.1%	97.2%	0.1%

Additions to the plan net assets include member and employer contributions and net investment income. The fixed member and employer contribution rates are established by law. On an annual basis, an independent actuarial valuation of SDRS is made to determine the adequacy of the fixed contribution rates to pay the normal cost of benefits, expenses, and amortize the unfunded actuarial accrued liability. In addition to the fixed contributions, members and employers may make additional contributions to purchase uncredited prior service. These purchase or acquisition payments are also included as contributions. As the SDRS membership ages, the number and amount of purchases have grown.

Funded Ratio

Change in Plan Net Assets

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Income from investments is the other primary source of revenue for SDRS. The actuarial assumed investment rate is 7.75 percent at June 30, 2008. The investment returns were (8.65) percent for 2008 and 21.39 percent for 2007.

Deductions from plan net assets are primarily benefit payments. During 2008, SDRS paid \$301.4 million to benefit and refunds recipients, or 6.8 percent more than 2007. The increase is due to added recipients and the annual 3.1 percent cost-of-living adjustment (COLA). Refunds of accumulated contributions during 2008 decreased 2 percent. Administrative costs of SDRS represent less than 0.05 percent of plan net assets.

A summary of the changes in plan net assets is shown below:

	2008	2007	% Change
Additions:			
Employee contributions	\$ 91,978,502	\$ 86,932,782	5.8
Employer contributions	89,766,090	85,361,762	5.2
Investment income (loss)	(723,013,005)	1,426,600,535	(150.7)
Total additions	(541,268,413)	1,598,895,079	(133.9)
Deductions:			
Benefits	273,236,767	253,545,120	7.8
Refunds of contributions	28,203,655	28,777,398	(2.0)
Administrative expenses	3,352,380	3,033,519	10.5
Total deductions	304,792,802	285,356,037	6.8
Net increase (decrease) in plan net assets	(846,061,215)	1,313,539,042	(164.4)
Net assets held in trust for pension benefits:			
Beginning of year	8,158,168,676	6,844,629,634	19.2
End of year	<u>\$7,312,107,461</u>	<u>\$8,158,168,676</u>	<u>(10.4)</u>

Investments

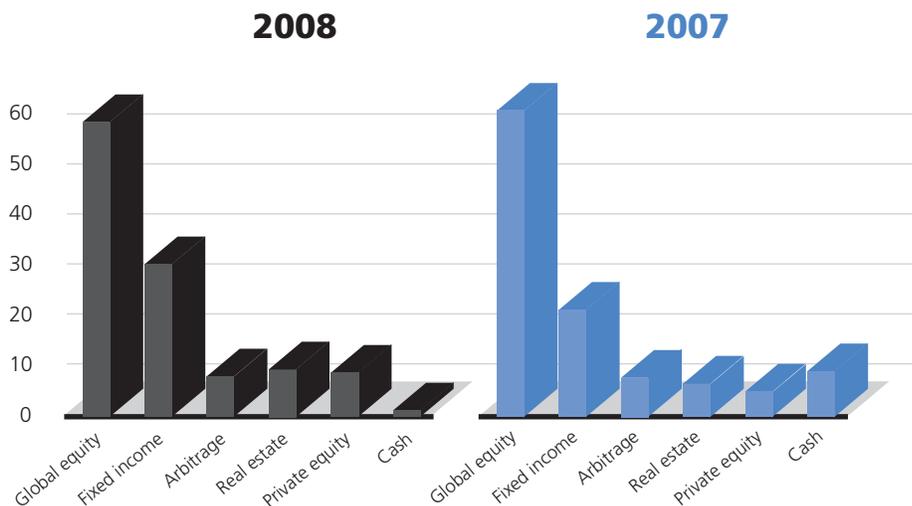
SDRS investment portfolio management is the statutory responsibility of the South Dakota Investment Council. The South Dakota Investment Office is the primary investment manager, but the Investment Council may utilize the services of external money managers.

Investment performance during 2008 and 2007 was (8.65) percent and 21.39 percent, respectively.

The Investment Council is governed by the prudent-man standard, as defined in South Dakota Codified Law 4-5-27:

4-5-27. Prudent-man standard required in investments. Any investments under the provisions of § 4-5-12 to 4-5-39, inclusive, shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Though monthly benefit payments exceed monthly contributions, the SDRS is not subject to sudden, substantial, and unexpected withdrawals. As a result, it is not necessary to maintain a high percentage of assets in short-term investments unless that is deemed to be the best investment strategy. This allows the SDRS trust fund to be fully invested in a diversified portfolio of securities.



Investment Summary

Recent market conditions have resulted in an unusually high degree of volatility and increased the risks and short term liquidity associated with certain investments held by SDRS which could impact the value of investment after the date of these financial statements. Through October 31, 2008, the investments held by SDRS have depreciated in value by approximately \$1.3 billion. Included in the depreciation of the investment portfolio are losses of \$129.9 million as of October 31, 2008, due to several companies which have declared bankruptcy, been placed into receivership by the federal government, or have transferred substantial rights of ownership in exchange for loans from the federal government. The negative return on SDRS's assets through October 31, 2008 could ultimately effect the funded status of SDRS. The ultimate impact on the funded status will be determined based upon market conditions in effect when the annual valuation for the year ended June 30, 2009 is performed.

While the markets have not always made it possible to achieve the long-term assumptions, the System's funding remains solid. The reserve for long-term benefit goals has provided a process for both improving benefits and protecting the System in down markets.

Requests for information about SDRS may be directed to the South Dakota Retirement System at P.O. Box 1098, Pierre, SD 57501. You may also contact SDRS online at www.sdrs.sd.gov.

Plan Status

Requests for Information

BASIC FINANCIAL STATEMENTS

Statement of Plan Net Assets

As of June 30, 2008

Assets

Cash and cash equivalents \$5,963,982

Receivables

Employer 2,396,990

Employee 4,867,164

Benefits 68,026

Unsettled investment sales 33,227,183

Accrued interest and dividends 20,008,802

Total receivables 60,568,165

Investments, at fair value

Fixed income 1,915,933,387

Equities 3,793,276,312

Real estate 948,547,062

Private equity 716,594,897

Total investments 7,374,351,658

Securities lending collateral 321,644,668

Other assets 45,725

Total assets 7,762,574,198

Liabilities

Accounts payable
and accrued expenses 2,569,051

Securities sold, but not yet
purchased, at fair value 90,627,779

Unsettled investment purchases 35,462,682

Due to brokers – futures
transactions 162,557

Securities lending collateral 321,644,668

Total liabilities 450,466,737

Net assets held in trust for pension benefits \$7,312,107,461

(A schedule of funding progress is presented in the Required Supplemental Information.)

The accompanying notes are an integral part of the financial statements.



Additions

Contributions:	
Employee	\$ 91,978,502
Employer	<u>89,766,090</u>

Total contributions **\$ 181,744,592**

Investment income (loss):

From investing activities

Net appreciation in fair value of investments	(887,232,275)	
Interest	77,367,271	
Dividends	112,785,217	
Real estate	<u>3,101,018</u>	
Investment loss	(693,978,769)	
Less investment activity expenses	<u>(30,735,193)</u>	
Net investment activity loss		(724,713,962)

From security lending activities

Security lending income	21,941,809	
Security lending expenses	<u>(20,240,852)</u>	
Net security lending activity income		<u>1,700,957</u>

Total investment loss **\$ (723,013,005)**

Total additions **\$ (541,268,413)**

Deductions

Benefits	273,236,767
Refunds of contributions	28,203,655
Administrative expenses	<u>3,352,380</u>

Total deductions **\$ 304,792,802**

Net decrease in plan net assets **(846,061,215)**

Net assets held in trust for pension benefits

Beginning of year	<u>8,158,168,676</u>
End of year	<u>\$ 7,312,107,461</u>

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Plan Net Assets

For the year ended
June 30, 2008

BASIC FINANCIAL STATEMENTS (CONTINUED)

Notes to Financial Statements

1. General Description of the System:

The South Dakota Retirement System (SDRS) is a cost-sharing, multiple-employer, public employee retirement system (PERS) established to provide retirement benefits for employees of the State of South Dakota (the State) and its political subdivisions. Members of SDRS include full-time employees of public schools, the State, the Board of Regents, city and county governments, and other public entities. Public schools, cities, and counties may choose not to include certain full-time employees in the system.

SDRS is considered a part of the State financial reporting entity and is included in the State's financial report as a pension trust fund. Authority for establishing, administering, and amending plan provisions are found in South Dakota Codified Law (SDCL) 3-12.

The South Dakota Retirement System Board of Trustees (the Board) is the governing authority of SDRS. The Board consists of 14 elected representatives from participating groups, two appointees of the governor, and an ex-officio non-voting representative of the South Dakota Investment Council. The elected representatives of the Board are two teacher members; two State employee members; a participating municipality member; a participating county member; a participating classified employee member; a current contributing Class B member other than a justice, judge, or magistrate judge; a county commissioner of a participating county; a school district board member and an elected municipal official of a participating municipality; a retiree; and a faculty or administrative member employed by the Board of Regents. The two governor's appointees consist of one head of a principal department established pursuant to SDCL 1-32.2, or one head of a bureau under the office of executive management and one individual from the private or public sector.

SDRS is a hybrid defined benefit plan designed with several defined contribution plan type provisions. The system includes two classes of members: Class A — general members and Class B — public safety and judicial members. Members and their employers make matching contributions, which are defined in State statute. SDRS may expend up to 3 percent of the annual contributions for administrative expenses subject to approval by the executive and legislative branches of the State.

SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of contributory service. Class A members and Class B judicial members who retire after age 65 with three years of service are entitled to an unreduced annual retirement benefit. An unreduced

annual retirement benefit is also available after age 55 for Class A members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B judicial members where the sum of age and credited service is equal to or greater than 80. Class B public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B public safety members where the sum of age and credited service is equal to or greater than 75. All retirement benefits that do not meet the above criteria may be payable at a reduced level. All benefits receive an annual cost-of-living adjustment of up to 3.1 percent each July 1st. The first year increase is prorated for the number of months the benefit is received.

SDRS is a qualified defined benefit retirement plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes. SDRS has received a favorable determination letter dated August 13, 1996.

SDRS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. SDRS is uninsured for property loss. SDRS participates in the various programs administered by the State of South Dakota (the State). These risk management programs are funded through assessments charged to participating entities. The risk management programs include (1) coverage for risks associated with automobile liability and general tort liability (including public officials' errors and omissions liability, medical malpractice liability, law enforcement liability, and products liability) through the State's Public Entity Pool for Liability Fund, (2) coverage of employee medical claims through the State's health insurance program, (3) coverage for unemployment benefits through the State's Unemployment Insurance Fund, and, (4) coverage for workers' compensation benefits through the State's Workers' Compensation Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.

As of June 30, 2008, the number of participating governmental employers is as follows:

School districts	176
State of South Dakota	1
Board of Regents	1
Municipalities	145
Counties	64
Boards and commissions	87
Total employers	<u>474</u>



At June 30, 2008, SDRS membership consisted of:

Retirees and beneficiaries currently receiving benefits:	
Class A (general employees)	18,239
Class B Public Safety and Judicial employees	1,082
Total retirees and beneficiaries	19,321
Terminated members entitled to benefits but not yet receiving them:	
Class A (general employees)	13,936
Class B Public Safety and Judicial employees	470
Total terminated members	14,406
Current active members:	
Vested:	
Class A (general employees)	27,291
Class B Public Safety and Judicial	1,877
Nonvested:	
Class A (general employees)	7,885
Class B Public Safety and Judicial	654
Total current active members	37,707
Grand total	71,434

2. Summary of Significant Accounting Policies:

(a) Basis of Accounting and Presentation:

The accompanying financial statements are prepared using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles applicable to governmental accounting for a pension trust fund. Revenue is recorded when earned and expenses recorded when incurred. Employee and employer contributions are recognized when due pursuant to formal commitment, as well as statutory requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the plan administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

(b) Method Used to Value Investments:

Investments are reported at fair value. Fair value is determined based on closing market prices at June 30, 2008 for those securities traded on national and international stock exchanges and at the average of bid-and-asked quotations for those securities traded in the over-the-counter markets. The value of foreign securities in foreign currency amounts is expressed in U.S. dollars at the closing daily rate of exchange. Purchases and sales are recorded as of the trade date.

For alternative investments where no readily available market value exists, management, in consultation with their investment advisors, values these investments in good faith based upon audited financial statements or

other information provided by the underlying investment advisor. These alternative investments were valued at \$2,245,007,981 (31% of net assets) at June 30, 2008. The estimated fair value of these investments may differ significantly from values that would have been used had a ready market existed.

The equity securities include common stocks, preferred stocks, convertible debentures, arbitrage securities, and equity international funds. The fixed income securities include U.S. government and government-backed bonds and corporate bonds.

Foreign exchange rate gains and losses are included with the net appreciation in fair value in investments. Futures contracts are marked to market based on quoted futures prices with changes in fair value reflected in the current period.

Interest and dividends are accrued in the period in which they are earned.

3. Contributions and Reserves:

Contributions — Covered employees are required by statute to contribute a percentage of their salary to SDRS as follows:

- Class A members — 6 percent of salary
- Class B Judicial members — 9 percent of salary
- Class B Public Safety members — 8 percent of salary

All participating employers are required to contribute an amount equal to the member's contributions. Members may make an additional contribution of 1.2 percent of compensation for optional spouse coverage.

SDRS is funded by fixed member and employer contributions at a rate established by law. On an annual basis, an independent actuarial valuation of SDRS is made to determine the adequacy of the fixed contractually required contributions to pay the normal cost and expenses, and amortize the frozen unfunded actuarial accrued liability. The June 30, 2008 actuarial valuation of the plan determined that the contractually required employer contributions equals the requirements for the annual required contribution of the employers under Governmental Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, since the contractually required employer contributions are sufficient to pay the employer normal cost and expenses, and amortize the frozen unfunded actuarial accrued liability over a period of less than 30 years (20 years as of June 30, 2008). The maximum contributions limits are not considered in the projection of pension benefit liabilities. Annual required contributions of the employer equal to the contractually required contributions have been listed below pursuant to GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers.

BASIC FINANCIAL STATEMENTS (CONTINUED)

<u>Year ending June 30</u>	<u>Employers</u>	<u>% Contributed</u>
2008	\$89,766,090	100
2007	85,361,762	100
2006	80,829,338	100

Contributions during fiscal year 2008 totaling \$181,744,592 (\$91,978,502 employee and \$89,766,090 employer) were made in accordance with statutory rates. These contributions represent 13.3 percent of current year covered payroll for all participating units. The employee contributions exceed the employer contributions because of optional spouse coverage contributions and employee service purchase payments.

SDRS allows participating entities to pay their deferred contributions for funding of accrued benefits over periods of up to 20 years and members to pay for the purchase of certain prior service over periods of up to 10 years. Interest is charged at rates of 5 percent to 8 percent.

Future payments will be received as follows:

<u>Year ending June 30</u>	<u>Employees</u>
2009	\$994,273
2010	627,148
2011	451,014
2012	337,726
2013	265,884
Later	<u>233,826</u>
	2,909,871
Less amount representing interest	<u>453,818</u>
Deferred contributions receivable at June 30, 2008	<u>\$2,456,053</u>

Reserves — The reserve for funding of long-term benefit goals is designed to fund benefit improvements and provide the plan with protection against adverse experience. The reserve for funding of long-term benefit goals is equal to the cumulative amounts credited or debited annually based on the immediate recognition of actuarial investment losses, the five-year recognition of actuarial investment gains and the five-year recognition of SDRS liability gains or losses, less reductions described below. If benefit improvements are enacted into law and funded from the reserve for funding of long-term benefit goals, the reserve for funding of long-term benefit goals is reduced by the present value of all benefits for those improvements. The reserve for funding of long-term benefit goals may also be reduced to offset unfavorable experience, if required, to meet the funding objectives of SDRS as established by the Board of Trustees. As of June 30, 2008, the balance in the revenue for funding of long-term benefit goals is (\$282 million).

4. Funded Status and Funding Progress - Pension Plan

As of June 30, 2008, the most recent actuarial valuation date, the plan was 97.2% funded. The actuarial accrued liability for benefits was \$6.98 billion, and the actuarial value of assets was \$6.78 billion, resulting in an unfunded actuarial accrued liability (UAAL) of \$192 million. The covered payroll (annual payroll of active employees covered by the plan) was \$1.36 billion, and the ratio of the UAAL to the covered payroll was 14.1%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements on page 27, present multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

In the June 30, 2008 actuarial valuation, the entry age frozen unfunded actuarial accrued liability method was used. The actuarial assumptions included (a) 7.75% investment rate of return and (b) projected salary increases ranging from 4.15% to 8.13%. Both (a) and (b) include the inflation component of 3.1%. The actuarial value of assets was determined by the following method: assets credited with assumed rate of investment return, debited/credited with liability gain/loss for the year and constrained to a range of 80% to 120% of market. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2008 was 20 years.

5. Cash and Investments:

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council, which may utilize the services of external money managers for management of a portion of the portfolio. The South Dakota Investment Council is governed by the Prudent Man Rule (that is, the council should use the same degree of care as a prudent man). Current South Dakota Investment Council investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, etc.).

Cash and cash equivalents are held by the State Treasurer and were invested in the state's pooled investment fund. Investments in the state's pooled investment fund consist primarily of commercial paper rated A1 or P2 or better, short-term U.S. Treasury obligations, bank certificates of deposit, and money market funds.

Investments at June 30, 2008 were managed by the following:

	Cost	Fair value
State of South Dakota Investment Council	\$5,153,670,337	\$4,982,219,566
Blackstone Real Estate Partners	569,219,855	709,771,325
Cargill North American Real Estate Partners	150,866,768	161,529,437
CINVIN Fund 4	48,423,766	57,187,434
Research Affiliates	94,800,871	89,038,134
Capital Guardian Global Equity Fund	102,238,248	121,596,961
CVI Global Value Fund	147,369,447	163,740,643
CVI Specialized Ventures Fund	33,949,960	13,724,861
TCW Specialized Mtg Credits	34,104,459	30,833,823
Oaktree Loan Fund 2x	51,915,233	50,224,823
Blackstone Distressed Securities	39,850,000	39,788,276
Blackstone Credit Liquidity	15,083,877	17,073,170
Post Advisory Group LLC	2,450,151	978,548
Silver Lake Partners LP	92,571,615	109,410,786
KKR Associates	64,693,131	73,045,670
Cypress Merchant Banking Partners LP	27,570,513	16,371,773
Apollo Real Estate Advisors LP	38,614,235	48,416,695
Bridgewater Pure Alpha Fund II	50,000,000	60,929,576
Dimensional Fund Advisors, Inc.	8,918,381	32,771,463
Blackstone Private Equity	182,613,124	183,745,045
Doughty Hanson & Co. Private Equity IV	70,352,215	95,109,575
Brandes Investment Partners	43,326,487	31,084,021
Blackstone Kalix Offshore	25,000,000	26,211,185
Lehman Crossroads Investment Advisors LP	15,264,543	14,001,326
Doughty Hanson & Co. European Real Estate	20,913,520	28,829,606
AllianceBernstein Global Strategic Fund	28,917,735	27,001,514
CVC	31,754,661	46,144,798
AIG Capital Partners	16,734,359	23,877,508
AllianceBernstein Global Opportunities Offshore Hedge Fund	10,000,000	13,422,694
Carlyle IV	32,613,343	34,959,216
Riverstone	1,594,039	1,594,039
GE Asset Management	40,920,000	44,617,776
Elevation Partners	20,407,236	20,625,984
DLJ Merchant Banking Partners LP	4,820,992	4,474,407
Total investments	7,271,543,101	7,374,351,658
Securities sold, but not yet purchased	(86,328,898)	(90,627,779)
Total	\$7,185,214,203	\$7,283,723,879

Investments managed by the South Dakota Investment Council consist of domestic and international equity securities, government and corporate fixed-income instruments, and short term investments. The Post Advisory Group LLC, CVI Specialized Ventures Fund, TCW Specialized Mtg Credits, Oaktree, Loan Fund 2x, Blackstone Distressed Securities, and Blackstone Credit Liquidity invest in distressed and high-yield fixed-income securities. AllianceBernstein Global Opportunities Offshore Hedge Fund, AllianceBernstein Global Strategic Fund, Bridgewater Pure Alpha Fund II, Brandes Investment Partners, CVI Global Value Fund, Research Affiliates, Capital Guardian Global Equity Fund, GE Asset Management, and Dimensional Fund Advisors, Inc. invest in global equities. Blackstone Real Estate Partners, Doughty Hanson & Co. European Real Estate, Apollo Real Estate Advisors LP, and Cargill North American Real Estate Partners invest in real estate. DLJ

Merchant Banking Partners LP, KKR Associates, AIG Capital Partners, CINVIN Fund 4, Lehman Crossroads Investment Advisors LP, Silver Lake Partners LP, Doughty Hanson Private Equity, Blackstone Private Equity, Elevation Partners, CVC, Carlyle IV, Riverstone and Cypress Merchant Banking Partners LP invest in private equity.

Foreign Currency Risk:

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. SDRS' exposure to foreign currency risk derives from its positions in foreign currency and foreign-currency-denominated equity and fixed-income investments. SDRS does not hedge foreign currency back to U.S. dollars (to match the unhedged benchmark), but does allow hedging under certain circumstances, when deemed appropriate. The portfolio's exposure to foreign currency risk at June 30, 2008 is as follows (in U.S. dollar fair value):

Currency	Equities	Fixed income	Cash	Total
	U.S. dollar fair value	U.S. dollar fair value	U.S. dollar fair value	
Australian dollar	\$2,181,433	—	\$139,612	\$2,321,045
Brazilian real	1,322,171	—	—	1,322,171
British pound	282,444,717	—	1,262,038	283,706,755
Canadian dollar	73,321,036	—	648,547	73,969,583
Danish kroner	294,840	—	35,470	330,310
Euro	322,519,279	423,000	1,429,761	324,372,040
Hong Kong dollar	3,446,325	—	44,361	3,490,686
Indonesian rupiah	216,269	—	—	216,269
Israeli shekel	—	—	63	63
Japanese yen	154,248,319	—	8,754,815	163,003,134
Korean won	49,898,459	—	—	49,898,459
Malaysian ringgit	457,822	—	—	457,822
New Zealand dollar	—	—	1,310	1,310
Norwegian krone	4,516,557	—	21,030	4,537,587
Singapore dollar	—	—	259	259
South African rand	1,419,969	—	7	1,419,976
Swedish krona	13,436,930	—	3,860	13,440,790
Swiss franc	120,876,890	—	3,826,043	124,702,933
Taiwan dollar	628,960	—	—	628,960
Turkish Lira	756,811	—	—	756,811
Russia	384,540	—	—	384,540
Total fair value	\$1,032,371,327	\$423,000	\$16,167,176	\$1,048,961,503

Investments with limited partnerships and certain global equity investments with outside managers, which are not included in the table above, may expose SDRS' portfolio to additional foreign currency risk. The total fair value of investments in real estate and private equity limited partnerships as of June 30, 2008 was \$1,629,094,624. The total fair value of global equity, arbitrage equity, and distressed and high yield fixed income investments managed by outside managers was \$490,501,743, \$119,912,224, and \$152,623,501, respectively.

Custodial Credit Risk:

The custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, a government will not be able to recover

BASIC FINANCIAL STATEMENTS (CONTINUED)

the value of investment or collateral securities that are in the possession of an outside party. The securities lending policies are detailed in the following securities lending section. At June 30, 2008, the following investments were uninsured and unregistered, with the securities held by the counterparty, or by its trust department or agent, but not in SDRS' name.

Total investments	\$ 1,244,807
Security lending collateral	<u>321,644,688</u>
Total fair value	<u>\$322,889,495</u>

Securities lending transactions are permitted by the Board. These transactions involve the lending of securities to broker-dealers and other entities for collateral in the form of cash or securities, with the simultaneous agreement to return the collateral for the same securities in the future. The securities custodian is an agent in lending securities for collateral of the following percentages:

<u>Collateral type</u>	<u>Margin required</u>
Cash	100%
U.S. government	102
U.S. agencies	102
U.S. sponsored agencies	102
Asset backed (AAA)	105
Corporates (AAA)	110
Money market (A1/P1 — under 1 year)	102

The cash collateral is reinvested by the lending agent in accordance with contractual investment guidelines that are designed to ensure the safety of principal and obtain a moderate rate of return. The investment guidelines include very high credit quality standards and also allow for a portion of the collateral investments to be invested with short-term securities. The earnings generated from the collateral investments, less the amount of rebates paid to the dealers, results in the gross earnings from lending activities, which is then split on a percentage basis with the lending agents.

At year-end, no credit risk exposure to borrowers exists because the amounts owed the borrowers exceed the amounts the borrowers owe. The contract with the lending agent requires the agent to indemnify if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent. All securities loans can be terminated on demand by either SDRS or the borrower, although the average term of the loans is one business day. The term to maturity of the securities loans is matched with the term to maturity of the investments of the cash collateral by investing in a variety of short-term investments. The ability to pledge or sell collateral securities can be made without borrower default. In addition, no restrictions on the amount of the loans exist. These loans are part of the investment portfolios. Collateral consisting of cash value of 102 percent of the market value of the securities loaned were placed on account for the securities lending program.

Concentration of Credit Risk:

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of SDRS' investment in a single issue. SDRS does not have guidelines to limit its investments in any particular investment. SDRS does not have investments in any one issuer which represent 5 percent or more of the total fair value of investments.

Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The SDRS' investment grade fixed income portfolio's duration must fall between 70 percent and 130 percent of the duration of the Citigroup Broad Investment Grade (BIG) Index. The durations of the various investment types are listed in the following table:

<u>Investment type</u>	<u>Fair value</u>	<u>Duration</u>
U.S. Treasuries	\$147,744,290	7.07
U.S. Treasury strips	51,062,993	14.77
U.S. Treasury Bills	199,184	0.21
U.S. agencies	119,414,398	6.63
Investment grade corporates	300,377,306	3.91
High-yield corporates	191,732,948	4.39
Mortgage-backed securities	426,171,912	4.39
Mutual funds	151,208,281	—
Total	<u>\$1,387,911,312</u>	

Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to SDRS. The South Dakota Investment Council sets the investment policy annually for SDRS. This policy establishes the average percentage invested in each asset category and the fund allocation range that each asset category can vary during the fiscal year. As of June 30, 2008, the portfolios held the following investments, excluding those issued by or explicitly guaranteed by the U.S. government, which are not considered to have credit risk. The investments are grouped as rated by Moody's Investors Service.

<u>Moody's rating</u>	<u>Fair value</u>
Aaa	\$ 656,276,537
Aa	71,915,662
A	100,774,743
Baa	93,100,083
Ba	108,811,097
B	23,754,342
Caa	—
Ca	—
C	—
Not rated	76,148,824
Total	<u>\$1,130,781,288</u>

During fiscal year 2008, SDRS' investments (including investments bought and sold, as well as held during the year) depreciated in value by \$887,232,275.

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior years and current year.

Change in Fair Value of Investments

	Year ended June 30, 2008
Depreciation in fair value of investments:	
Equity securities	\$(1,274,985,148)
Fixed-income securities	(3,176,942)
Real estate	(48,825,794)
Private equity	17,572,320
Total decrease in fair value	(1,309,415,564)
Realized gain (loss) on investments sold:	
Equity securities	350,807,660
Fixed-income securities	(21,695,044)
Real estate	82,100,071
Private equity	53,146,480
Total net realized gains	464,359,167
Net loss on futures contracts	(42,175,878)
Net depreciation in fair value of investments	<u>\$(887,232,275)</u>

6. Derivatives:

Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. SDRS is exposed to a variety of derivative products through the investment management of the South Dakota Investment Council and its outside managers.

The South Dakota Investment Council purchases and sells financial, interest rate and commodity futures as a means of adjusting the SDRS portfolio mix and as a lower transaction cost substitute for transactions that would otherwise occur in the underlying portfolios. Futures contracts outstanding at June 30, 2008 are as follows:

Description	Open position	Number of contracts	Fair value
WTI Crude due August 2008	Short	94	\$(13,160,000)
WTI Crude due September 2008	Short	208	(29,120,000)
WTI Crude due October 2008	Short	46	(6,440,000)
WTI Crude due December 2008	Short	1,041	(145,740,000)
WTI Crude due December 2009	Short	134	(18,760,000)
WTI Crude due December 2010	Short	49	(6,860,000)

A futures contract is a contract to buy or sell units of an index, financial instrument, or commodities at a specified future date at a price agreed upon when the contract is originated. Upon entering into such a contract, SDRS

pledges to the broker cash or U.S. government securities equal to the minimum "initial margin" requirement of the futures exchange. Additionally, SDRS receives or pays a daily "variation margin," which is an amount of cash equal to the daily fluctuation in value of the contract. The use of futures contracts is subject to various market risks. The maximum amount at risk from the purchase (long position) of a futures contract is the contract value. The amount at risk from the sale (short position) of a futures contract depends upon the amount that the contract raises in value. Although short positions have theoretically no maximum risk, the SDRS short positions are hedged against the underlying portfolio to limit the exposure. Each WTI Crude contract is defined as 1,000 times the price of the West Texas Intermediate (WTI).

The hedging guidelines of the SDRS arbitrage portfolios managed by the South Dakota Investment Council provide that stock and other noncash considerations to be received may be hedged through the use of options, short sales, or when-and-if-issued sales. The two arbitrage portfolios had short sales valued at \$90,627,779 as of June 30, 2008. A short sale involves the sale of securities not yet owned, but borrowed through a broker to be later repurchased to cover the loan. The arbitrage portfolios use the short sales to hedge the disparities between the existing price of a security and the present value of considerations to be received as a result of restructuring or merger activity.

The South Dakota Investment Council also enters into foreign exchange forward contracts to hedge foreign currency transactions. These contracts are purchased to reduce the impact of foreign currency fluctuations. The South Dakota Investment Council does not engage in foreign currency speculation. The contracts do not subject SDRS to risk due to exchange rate movements as gains and losses on the contracts offset gains and losses on the transactions being hedged. The unrealized loss on foreign exchange forward contracts as of June 30, 2008 was \$8,684,729. This amount does not include limited partnerships and certain global equity investments with outside managers, which may also enter into foreign exchange forward contracts.

SDRS' theoretical risk in these transactions is the cost of replacing, at current market rates, these contracts in the event of default by the other party. Management believes the risk of incurring such losses is remote as the contracts are entered into with major financial institutions.

In addition to the derivatives listed above, the SDRS fixed income portfolio also held mortgage-backed securities in the form of GNMA, FHLMCs, and FNMA. The fair value of these securities as of June 30, 2008 was \$542,701,377. These securities may be subject to prepayment by the mortgagees, which may reduce the fair value of these securities. The South Dakota Investment Council is using this investment to enhance fixed returns.

BASIC FINANCIAL STATEMENTS (CONTINUED)

7. Compensated Absences:

Annual leave is earned by all SDRS employees. Upon termination, SDRS employees are eligible to receive compensation for their accrued annual leave balances. At June 30, 2008, a liability existed for accumulated annual leave calculated at the employees' June 30, 2008 pay rate in the amount of \$102,740. Employees who have been continuously employed by SDRS and the State for at least seven years prior to the date of their retirement, voluntary resignation, or death will receive payment for one-fourth of their accumulated sick leave balance with such payment not to exceed the sum of 12 weeks of the employee's annual compensation. For employees who have not been employed for seven continuous years, an accrued liability is calculated assuming the likelihood that they will meet the seven-year threshold in the future. At June 30, 2008 a liability existed for accumulated and accrued sick leave, calculated at the employees' June 30, 2008 pay rate in the amount of \$126,651.

	<u>2008</u>	<u>2007</u>	<u>% change</u>
Total compensated absences	\$229,391	\$211,839	8.29%

The total leave liability for the current year is on the Statement of Net Assets Available for Benefits in accounts payable and accrued expenses.

8. Operating Leases:

The SDRS has entered into an agreement to lease office space. The lease was effective September 2007 and has a term of five years. A schedule of minimum office rental payments as of June 30, 2008 is as follows for the fiscal year ending June 30:

2009	\$ 101,417
2010	101,511
2011	101,511
2012	101,511
2013	101,511

Total remaining minimum payments	<u><u>\$507,461</u></u>
-----------------------------------------	--------------------------------

9. Supplemental Retirement Plan:

SDRS offers a deferred compensation plan known as the Supplemental Retirement Plan (SRP), created in accordance with Internal Revenue Code Section 457. SRP is available to all public employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen emergency.

All amounts of compensation deferred under the SRP, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are at all times held in trust for the exclusive benefit of the participants until made available to a participant or the participant's beneficiary.

Of the \$124,038,806 net assets available for plan benefits at June 30, 2008, \$78,923,626 was held in trust for employees of the State, while the remaining \$45,115,180 represents the assets held in trust for employees of other jurisdictions. In order to avoid duplication in reporting, the SDRS total of \$532,773 is

included in the State total and the State's comprehensive annual financial report for the year ended June 30, 2008.

10. Special Pay Plan:

The Special Pay Plan (SPP) was established in July 2004 as a qualified plan pursuant to Internal Revenue Code Section 401(a) under the administrative responsibility of the SDRS Board of Trustees. South Dakota state government and the South Dakota Board of Regents are participating units and every state political subdivision may become a participating unit in the plan. The SPP mandates that qualifying employees (over age 55 and \$2,000 or more in "special" pay) of participating units defer 100 percent of their special lump-sum termination pay to the plan. The participating unit transfers the deferred pay to the fund. This deferred pay is available to a participant immediately after termination, upon later retirement, or to beneficiaries or an estate upon the participant's death.

Of the \$13,674,788 net assets available for plan benefits at June 30, 2008, \$8,016,971 was held in trust for employees of the State, while the remaining \$5,657,817 represents the assets held in trust for employees of other jurisdictions.

11. Plan Termination

SDRS is administered in accordance with South Dakota statutes. The statutes provide for full vesting in accrued benefits upon termination of the plan (SDCL 3 12 72.2).

12. Commitments

At June 30, 2008, SDRS had uncalled capital commitments to private equity limited partnerships totaling approximately \$620,250,000 and to real estate limited partnerships totaling approximately \$546,189,000. The commitments may be called at the discretion of the general partner or may never be called. As capital is called, it is funded from capital and earnings returned by the limited partnerships or from other assets.

13. Subsequent Event

Recent market conditions have resulted in an unusually high degree of volatility and increased the risks and short term liquidity associated with certain investments held by SDRS which could impact the value of investment after the date of these financial statements. Through October 31, 2008, the investments held by SDRS have depreciated in value by approximately \$1.3 billion. Included in the depreciation of the investment portfolio are losses of \$129.9 million as of October 31, 2008, due to several companies which have declared bankruptcy, been placed into receivership by the federal government, or have transferred substantial rights of ownership in exchange for loans from the federal government. The negative return on SDRS's assets through October 31, 2008 could ultimately effect the funded status of SDRS. The ultimate impact on the funded status will be determined based upon market conditions in effect when the annual valuation for the year ended June 30, 2009 is performed.

REQUIRED SUPPLEMENTARY INFORMATION

Amounts prior to June 30, 2001 were audited by other auditors.

Schedule of Funding Progress

(Dollar amounts in millions)

Actuarial valuation date	(a)	(b)	Unfunded actuarial liability [UAAL] (b-a)	Funded ratio (a/b)	(c) Covered payroll	UAAL as a percentage of covered payroll ((b-a)/c)
	Actuarial value of assets	Actuarial accrued liability — entry age [AAL]				
6/30/2003	4,685.8	4,818.9	133.1	97.2%	1,117.3	11.9
6/30/2004	4,937.5	5,051.7	114.2	97.7%	1,164.0	9.8
6/30/2005 ¹	5,381.0	5,571.8	190.8	96.6%	1,206.1	15.8
6/30/2006	5,668.5	5,859.9	191.4	96.7%	1,229.9	15.6
6/30/2007	6,526.5	6,718.8	192.3	97.1%	1,297.3	14.8
6/30/2008	6,784.3	6,976.8	192.5	97.2%	1,363.9	14.1

For the year ended June 30	Annual required contributions	Percentage contributed
2003	71,989,308	100
2004	74,854,496	100
2005	77,474,967	100
2006	80,829,338	100
2007	85,361,762	100
2008	89,766,090	100

Schedule of Employer Contributions

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Notes to Trend Data

Valuation date	6/30/2008
Actuarial cost method	Entry age with frozen unfunded actuarial accrued liability
Amortization method	Level percentage-open
Remaining amortization period	20 years
Asset valuation method	Assets credited with assumed rate of investment return, debited/credited with liability gain/loss for the year, and constrained to a range of 80 percent to 120 percent of market.
Actuarial assumptions:	
Investment rate of return¹	7.75%
Projected salary increase²	
based on age, with average of 5.5%	4.15% to 8.13%
Cost-of-living adjustments	3.1%

¹ Assumption changes occurred during fiscal year 2005.

² Includes inflation at 4.0 percent.

SUPPORTING SCHEDULES

Schedule of Administrative Expenses for the Year Ended June 30, 2008

	Accrual basis
Personal services	
Salary and per diem	\$1,296,940
Employee benefits	<u>342,209</u>
Total personal services	1,639,149
Operating expenses	
Travel	69,281
Contractual services	
Finance	25,175
Valuations	132,031
Consulting	278,303
Studies	84,207
Special studies	75,000
Legal	5,156
Communications	61,652
Medical	15,188
Operations	<u>573,760</u>
Total contractual services	1,250,472
Supplies and materials	345,211
Capital assets	<u>48,267</u>
Total operating expenses	<u>1,713,231</u>
Total administrative expenses	<u>\$3,352,380</u>

Schedule of Investment Expenses for the Year Ended June 30, 2008

	Management expenses
Investment managers	
State of South Dakota Investment Council	\$ 4,699,130
AIG	563,594
AllianceBernstein Global Strategic Fund	211,218
Apollo Real Estate Advisors LP	695,282
Blackstone Distressed Debt	150,000
Blackstone Private Equity	654,769
Blackstone Real Estate Partners	7,214,500
Brandes Investment Partners	379,750
Capital International	1,461,168
Cargill North American Real Estate Partners	(1,186,490)
Carlyle	597,255
CINVIN	2,338,751
CVC	498,354
CVI	3,053,867
Cypress Merchant Banking Partners LP	235,870
Dimensional Fund Advisors, Inc.	270,459
DLJ Merchant Banking Partners LP	83,057
Doughty Hanson & Co. European Real Estate	1,894,475
Doughty Hanson & Co. Private Equity IV	1,323,218
Elevation Partners	562,633
GE Asset Management China	971,949
Kohlberg Kravis Roberts Associates	224,584
Lehman Crossroads Investment Advisors LP	474,936
Oaktree Loan Fund 2x	231,265
Nicholas Applegate	29,348
Post Advisory Group LLC	110,734
Research Affiliates	159,563
Riverstone	646,852
Silver Lake Partners LP	2,041,469
TCW Specialized Mtg Credits	143,633
Total investment manager expenses	<u>\$30,735,193</u>

ACTUARIAL SUMMARY



- Actuary's Opinion**
- Actuarial Overview**
- Actuarial Valuation**
- Summary of Benefit Provision Changes**
- Plan Summary**

ACTUARY'S OPINION



November 10, 2008

Board of Trustees
South Dakota Retirement System
Post Office Box 1098
Pierre, SD 57501-1098

This report summarizes the results of Buck Consultants, LLC's annual Actuarial Valuation of the South Dakota Retirement System (SDRS) as of June 30, 2008.

This Actuarial Valuation is based on financial and Member data provided by SDRS and summarized in this report. The actuary did not verify the data submitted, but did perform tests for consistency and reasonableness.

All Members of Participating Units of SDRS and all benefits in effect on July 1, 2008 have been considered in this Actuarial Valuation. SDRS benefit provisions considered, Member data, and Trust Fund information are summarized in the Appendices in this report.

The assumptions and methods used to determine the Annual Required Contributions of the Employers to SDRS as outlined in this report and all supporting schedules meet the parameters and requirements for disclosure of Governmental Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. Buck Consultants, LLC is solely responsible for the actuarial data presented in this report.

This report does not take into account broad declines in U.S. equity and bond prices that have occurred after the valuation date. Taking these into account would have significantly reduced the market and actuarial value of assets shown. The effect of these on any funded ratios and on the final funding calculations is not known. Plan funding and accounting rules generally prohibit reflection of changes in assets and underlying economic conditions that occur after the measurement date.

SDRS is funded by Employer and Member Contribution Rates as established by South Dakota law. The funding objective for SDRS is that the required contributions remain level as a percent of Member Compensation at the statutory rates. The SDRS Board of Trustees has also established a funding objective that the statutorily required contributions be sufficient to pay the Normal Costs of SDRS, System Expenses, and amortize the Unfunded Actuarial Accrued Liability as a level percent of Member Compensation over an open period not to exceed 30 years.

As noted below, this objective is currently being met and is projected to continue to be met.

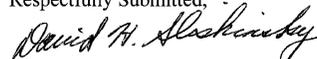
Our calculations and analysis indicate that the System is meeting its funding objectives and is in actuarial balance. The combined statutory Employer/Member Contributions are sufficient to pay the current Normal Costs and Expenses of the System and amortize the Unfunded Actuarial Accrued Liability over 20 years from July 1, 2008. The contractual Employer Contribution Rates to SDRS meet the requirements of the Annual Required Contributions of the Employers of GASB Statement No. 25.

The SDRS Board of Trustees measures and compares the funding progress of SDRS on several bases. The Actuarial Accrued Liability Funded Ratio of SDRS as of June 30, 2008 is 97.2%.

I am an Enrolled Actuary, an Associate of the Society of Actuaries and a Member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained in this report. This report has been prepared in accordance with all Applicable Standards of Practice. I am available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.

SDRS is actuarially sound.

Respectfully Submitted,


David H. Slishinsky, ASA, EA, MAAA
Principal and Consulting Actuary


Douglas J. Fiddler, ASA, EA, MAAA
Senior Consultant, Actuary

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ACTUARIAL OVERVIEW

An actuarial valuation of SDRS is performed as of June 30 each year. Prior to 1996, in odd-numbered years, an update was made which considered expected changes in the actuarial measures due to the assumed experience of the system as well as the effect of any changes in value of assets, actuarial valuation methods, or benefit provisions.

In the 2008 actuarial valuation, two important actuarial measures have been calculated in evaluating the actuarial soundness and funding progress of SDRS. They are:

- actuarial accrued liability funded ratio
- funding period

The actuarial accrued liability (AAL) is the present value of all benefits currently being paid and expected to be paid in the future, to all members, less the present value of future normal cost contributions. The actuarial accrued liability funded ratio is a required accounting disclosure. The measure is equal to the actuarial value of assets divided by the AAL. A ratio in excess of 100 percent indicates that projected accrued benefits are funded.

The funding period measures the length of time required to amortize unfunded actuarial accrued liabilities as well as pay the on-going normal costs, interest charges and expenses with the current contributions. The shorter the funding period the more favorable the actuarial measure.

Actuarial Accrued Liability

Measures of Actuarial Soundness

	2008 actuarial valuation	2007 actuarial valuation
Actuarial accrued liability funded ratio (actuarial value of assets/AAL)	97.2%	97.1%
Funding period	20 years	20 years

The time-weighted annualized investment performance based on the market value of assets of the system for the most recent year was negative 8.65 percent, significantly less than the assumed rate of 7.75 percent for fiscal year 2008. The dollar-weighted annualized investment performance based on the market value of assets for the period was negative 8.9 percent. This results in an actuarial investment loss of \$1,187 million. The actuarial value of assets was credited with the assumed rate of return of 7.75 percent for the one-year period ending June 30, 2008 and increased by the total liability loss of \$44 million. The reserve for funding of long-term benefit goals was decreased from a balance of \$865 million as of June 30, 2007, to a balance of \$72 million as a result of investment returns below expectations for fiscal year 2008. The reserve for funding of long-term benefit goals was subsequently reduced due to the recognition of benefit improvements of \$355 million, enacted into law as of July 1, 2008, resulting in a final reserve of negative \$283 million as of June 30, 2008.

Actuarial Investment Return Gains/Losses

For the year ended
June 30, 2008

ACTUARIAL OVERVIEW (CONTINUED)

Actuarial Liability Gains/Losses

For the year ended
June 30, 2008

Item	Amount of liability gain (loss)	Percentage of present value of all benefits
Gain/(loss) due to compensation increases	\$(8M)	(0.10)%
Gain due to decrements	(21M)	(0.26)%
(Loss) due to rehired and new members	(16M)	(0.20)%
Miscellaneous gain/loss	1M	0.02%
Total system loss	\$(44M)	(0.54)%

Actuarial Assumptions

Significant actuarial assumptions used include: a) a rate of return on the present and future assets of 7.75 percent a year compounded annually plus prefunding of improvement factor; b) projected Social Security cost-of-living increases of 4.0 percent and wage base increases of 5.5 percent per year compounded annually; c) post-retirement benefit increases of 3.1 percent per year compounded annually; d) active participant experience including projected salary increases that average 5.5 percent per year compounded annually; e) 80 percent of active members and 75 percent of retired and terminated members are assumed to be married; f) the male spouse is assumed to be three years older than the female spouse; g) mortality rates for active and non-disabled pensioners are based upon the 1995 Buck Mortality Table; and h) at termination of employment, members will elect the more valuable of the accumulated contributions or the deferred vested benefit payable at retirement.

A detailed experience analysis was conducted in 2003 and 2004, and appropriate modifications in the demographic assumptions regarding assumed rates of member termination, retirement and disability were made effective with the June 30, 2004, actuarial valuation.

Also as a result of the experience analysis in 2003 and 2004, and further study and debate of the SDRS Board of Trustees, changes were made to the economic actuarial assumptions effective for the June 30, 2005 actuarial valuation. These changes increased the unfunded actuarial accrued liability by slightly more than \$75 million and created a liability loss of \$98 million to the system based on the present value of all benefits.

Effective with the year ended June 30, 1995, the actuarial costs defined under the entry age normal method were modified to freeze unfunded liabilities and recognize plan gains and losses directly in the normal cost by amortizing them over the assumed future payroll of the membership. The calculation of the actuarial value of assets was also modified at that time.

The actuarial value of assets is credited each year with the assumed rate of investment return plus non-investment cash flow and reduced by liability gains and increased by liability losses for the year.

The reserve for funding of long-term benefit goals was first implemented as of the year ended June 30, 1995, to fund benefit improvements and provide

the system with protection against adverse experience. When implemented, actuarial investment gains (returns above the assumed investment return assumption) and actuarial investment losses (returns below the assumed investment return assumption) were recognized at the rate of 20 percent per year over a five-year period. Effective June 30, 1998, liability gains and losses were reflected in the same manner as investment gains and losses. The reserve was modified again as of June 30, 2001, to immediately recognize actuarial investment losses while still spreading the recognition of actuarial investment gains over five-year periods.

The reserve for funding of long-term benefit goals (if positive), was included in the actuarial value of assets, the actuarial accrued liability and the present value of all benefits from June 30, 1995 through June 30, 2003. Effective June 30, 2004, the reserve was no longer added to the actuarial assets or liabilities. This change was made to more accurately reflect the funded status of the system.

There were no changes in the actuarial assumptions or methods since the 2007 actuarial valuation.

The cushion is the excess of the market value of assets over the actuarial value of assets. The cushion represents funds not currently required to maintain the actuarial soundness of SDRS, and available to protect the system against future unfavorable experience.

SDRS gains and losses are allocated to the reserve for funding of long-term benefit goals. The amounts currently in the reserve and remaining to be allocated in the next four years are an important indicator of the system's recent cumulative experience. The reserve for funding of long-term benefit goals is also a source of funds to provide future benefit improvements or to protect the system against future unfavorable experience.

The reserve for funding of long-term benefit goals was \$72 million as of June 30, 2008 before being reduced by \$355 million due to the recognition of benefit improvements effective July 1, 2008.

Balance as of June 30, 2007*	\$ 864,581,418
Fiscal year 2008 experience	(1,195,476,903)
Amortization of prior gains and losses	403,009,064
Less present value of all benefits for improvements enacted into law funded from reserve	355,000,000
Balance as of June 30, 2008	\$ (282,891,421)

*Before encumbrance

Summary of Actuarial Assumption Changes

Cushion

Reserve for Funding of Long-term Benefit Goals

ACTUARIAL OVERVIEW (CONTINUED)

Actuarial Assumption Tables

Sample Separation Rates

Annual Rate per 100 Members

Age	Mortality		Disabled mortality	Disablement	
	Male	Female		Male	Female
25	0.07	0.02	0.68	0.08	0.10
30	0.06	0.02	1.06	0.08	0.11
35	0.07	0.04	1.14	0.10	0.12
40	0.10	0.06	1.35	0.12	0.15
45	0.14	0.09	2.00	0.16	0.22
50	0.22	0.14	3.16	0.24	0.23
55	0.35	0.21	3.78	0.40	0.38
60	0.64	0.32	4.25	0.84	0.80
65	1.24	0.66	5.12	1.71	1.55

Annual Turnover Rate per 100 Members

Age	Teachers	Judicial, municipal	Class B Public
		and general members	Safety members
25	18.20	22.40	16.80
30	13.70	16.40	13.20
35	8.60	12.60	9.60
40	6.78	9.50	7.00
45	5.13	7.70	4.80
50	3.98	6.00	7.25
55	2.30	3.06	2.04

Retirement Age Class B Public Safety

Age	Annual rate per 100 members eligible to retire
<50	0
50	10
51	8
52	8
53	8
54	10
55	15
56	20
57	25
58	30
59	35
60	40
61	45
62	100

Retirement Age Class A and B Judicial

Age	Annual rate per 100 members eligible to retire
55	8
56	8
57	8
58	8
59	8
60	10
61	10
62	20
63	25
64	25
65	50
66	50
67	50
68	50
69	50
70	100

Compensation Progression Sample Rates

Age	Ratio of compensation at age 65 to salary at current age	Percentage increase in year following indicated age
25	8.39	8.13
30	5.76	6.83
35	4.15	6.63
40	3.07	5.63
45	2.37	4.84
50	1.89	4.51
55	1.52	4.37
60	1.23	4.25
64	1.04	4.15



During the 2008 South Dakota Legislative Session, benefit changes were made to SDRS that have been reflected in the 2008 Actuarial Valuation. The following is a summary of the benefit changes effective July 1, 2008.

Benefit Changes

Summary of Benefit Changes and 2008 Actuarial Valuation Results

Changes Effective July 1, 2008		
Plan Provision	Prior Benefit	Benefit Change
1. Benefit Formula Multipliers for Credited Service Earned before July 1, 2008	<p>Old multipliers were:</p> <p>Class A:</p> <p><u>Standard Formula</u> 1.625% for Credited Service prior to July 1, 2002; 1.55% for other Credited Service.</p> <p><u>Alternate Formula</u> 2.325% for Credited Service prior to July 1, 2002; 2.25% for other Credited Service (less 80% of Primary Social Security Benefit)</p> <p>Class B Public Safety: 2.325% for Credited Service prior to July 1, 2002; 2% for other Credited Service.</p> <p>Class B Judicial: 3.658% for the first 15 years of Credited Service prior to July 1, 2002 plus 3.333% for all other years of such Credited Service plus 2.325% for Credited Service prior to July 1, 2002 in excess of 15 years plus 2% for other such Credited Service in excess of 15 years.</p>	<p>New multipliers for Credited Service earned before July 1, 2008 only:</p> <p>Class A:</p> <p><u>Standard Formula</u> 1.7%</p> <p><u>Alternate Formula</u> 2.4%</p> <p>Class B Public Safety: 2.4%</p> <p>Class B Judicial: 3.733% for Credited Service up to 15 years plus 2.4% for each additional year.</p>
2. Definition of "Child" Beneficiary	Unmarried dependent who has not passed the child's 18th birthday or is disabled.	Unmarried dependent who has not passed the child's 19th birthday or is disabled.
3. COLA to Retired Mitchell Firefighters	3.0% simple COLA	3.0% simple COLA
4. Supplemental Pension Benefit	None	None

Summary of Key Actuarial Measures

	2007 actuarial valuation results	System investment and liability experience for year ¹	Membership changes and maturity of system ²	Benefit changes effective July 1, 2008 ³	2008 actuarial valuation results
Normal cost rate with expense provision	11.458%	—	0.044%	—	11.502%
Funding period	20 years	—	—	—	20 Years
Unfunded actuarial accrued liability	\$192M	—	\$1M	—	\$193M
Actuarial accrued liability funded ratio	97.1%	—	—	0.1%	97.2%

¹ SDRS actuarial investment gains and liability gains and losses are smoothed and allocated directly to the reserve for funding of long-term benefit goals over five years. All SDRS actuarial investment losses are allocated immediately to the reserve.

² Future SDRS membership changes will cause minor changes in the normal cost rate even with smoothing of asset and liability gains and losses. The actuarial accrued liability funded ratio will gradually increase as the frozen unfunded actuarial accrued liability becomes a smaller percentage of the total SDRS liabilities.

³ As of June 30, 2008, \$355 million, representing the liability for benefit changes effective July 1, 2008, was added to the Actuarial Value of Assets and added to the Actuarial Accrued Liability, causing a slight increase in the funded ratio.

ACTUARIAL VALUATION

This section analyzes the ability of member and employer contributions to fund the obligations of the system. These obligations include both past and future liabilities.

In order for the system to be actuarially sound, the combined employer/member contribution rate must be adequate to pay the normal cost¹ of the system, system expenses, amortize the unfunded actuarial accrued liability² over a limited time, and pay interest on that liability.

SDRS' funding requirements for 2008, expressed as a percentage of payroll and total contributions, are based on the 2008 actuarial valuation and are summarized in the chart below.

	SDRS 2008 Funding Requirements	
	As a percentage of payroll	As a percentage of contributions
Matching statutorily required employer/member contribution rate	12.469 ¹	100.0
Normal contribution rate at mid-period	11.228	90.0
Expense allowance	.274	2.2
Total funding requirement before amortization of frozen unfunded actuarial accrued liability	11.502	92.2
Contribution rate available to amortize frozen unfunded actuarial accrued liability as a level percent of member compensation (12.469%-11.502%)	.967 ²	7.8

The 2008 actuarial valuation indicates a contribution of 0.967 percent of payroll allocated to the unfunded actuarial accrued liability is sufficient to pay interest and amortize the principal over 20 years.

Given the current system benefits and the present actuarial assumptions and methods, a small percentage of the contributions is allocated to payment of principal and interest.

¹ Class A employers and members each statutorily contribute 6 percent of compensation. Class B employers and members each statutorily contribute 8 percent or 9 percent of compensation. Participating members also contribute for the optional spouse coverage and Class A employers contribute 6.2 percent of member's compensation in excess of the Social Security maximum taxable compensation. The total statutory contributions to SDRS as of July 1, 2008 are 12.469 percent of considered compensation.

² Will amortize frozen unfunded actuarial accrued liability over 20 years from 2008.

The 2008 actuarial valuation confirms that:

- a. Funding of current benefit levels for active members and expenses requires 92 percent of the total contributions under the current actuarial assumptions and methods.
- b. The unfunded actuarial accrued liability is only 2 percent of the present value of all benefits of the system.
- c. Excess investment income has been the most significant element of favorable experience in the past, even considering the actuarial investment losses in fiscal years 2001 through 2003 and 2008.
- d. SDRS currently has a cushion of \$528 million and a balance of negative \$283 million in the reserve for funding of long-term benefit goals.

The actuarial valuation methodology results in the reduction of volatility in the actuarial measures because:

- a. The expected investment return of 7.75 percent of the actuarial value of assets and liability gains and losses are allocated to the actuarial value of assets.
- b. Twenty percent of actuarial investment gains and liability gains and losses each year are allocated to the reserve for funding of long-term benefit goals for five years. All actuarial investment losses are allocated immediately to the reserve. In periods of sustained gains, the reserve will accumulate sufficient assets for pre-funding benefit improvements. In the event of sustained losses, the reserve will be available to offset negative experience and dampen the volatility of short-term negative experience.

The 2008 actuarial valuation indicates that the employer-member contribution rates are adequate to pay the current costs of the system (normal cost plus expenses) and amortize the unfunded actuarial accrued liability over 20 years. The SDRS funding period will remain at 20 years in accordance with the board of trustees funding policy.

The conclusions reached under the determinations made in the actuarial valuation are the most important indicators of the long-term actuarial soundness of the system. The soundness is measured by the relationship of the normal cost to the total contributions available, by the length of the funding period — a shorter period being more favorable, by the cushion, the current balance in the reserve for long-term benefit goals and the net amount remaining to be allocated in the future.

The current SDRS benefits combined with the present financing and the relatively small amount of frozen unfunded actuarial accrued liability result in a very well funded system that is providing benefits essentially equal to the resources available.

Actuarial Soundness

ACTUARIAL VALUATION (CONTINUED)

SDRS is a consolidated, multiple-employer, cost-sharing retirement system that does not attempt to determine separate or unique funding requirements for entities within SDRS. However, the 2008 actuarial valuation confirmed that the two major employee groups within SDRS with different funding and benefit provisions (Class A and Class B) are self-supporting (i.e., the member and employer contributions are funding the benefits provided under these classifications).

The combination of actuarial assumptions and methods used in the actuarial valuation, the actual experience of the system, and the actuarial measures utilized all indicate a continuing sound system.

Development of the SDRS Actuarial Value of Assets

As of June 30, 2008

Actuarial value of assets as of June 30, 2008	\$ 6,526,534,941
Less encumbrance for Benefit Improvements	<u>(481,682,861)</u>
	\$ 6,044,850,080
Contributions and disbursements	
Contributions	181,744,593
Benefit payments and refunds	(301,440,422)
Administrative expenses	<u>(3,352,380)</u>
Total	\$ (123,048,209)
Expected investment return	\$ 463,701,918
SDRS liability loss	\$ (43,779,896)
Projected actuarial value of assets as of June 30, 2008	\$6,429,291,865
Present value of all benefits for improvements enacted into law as of June 30, 2008, and funded from reserve	<u>355,000,000</u>
Preliminary actuarial value of assets as of June 30, 2008	\$6,784,291,685
Market value of assets as of June 30, 2008	\$7,312,107,461
Constraining values	
80% of market value of assets	\$5,849,685,969
120% of market value of assets	\$8,774,528,953
Actuarial value of assets as of June 30, 2008	<u>\$6,784,291,685</u>



The benefit objectives of SDRS are to meet the needs of short- and long-term members by providing:

- Lifetime income replacement of at least 85 percent of final pay for career employees (including Social Security)
- Income replacement of at least 55% of final average compensation from SDRS defined benefits
- Inflation protection before and after retirement
- Early retirement opportunities
- Vesting after three years of contributory service
- Disability and survivor income protection
- A portable retirement option that allows members to elect a refund of both member and employer contributions, plus interest
- Risk-free market interest rate credited on member and employer contributions

Benefit and Funding Objectives and Historical Summary

The funded ratio and funding period are the primary measures of SDRS' soundness.

The SDRS objective is to maintain a funding ratio in excess of 95 percent and a funding period of 30 years or less.

The schedule below presents the actuarial accrued liability funded ratio and the funding period as of each actuarial valuation since 1986.

Valuation date	Actuarial accrued liability	Actuarial value of assets	Actuarial accrued liability funded ratio	Funding period
1986	\$ 875,821,002	\$ 742,055,584	84.7%	37 years
1988	1,078,235,569	1,050,836,113	97.5	6 years
1990	1,404,616,511	1,275,091,534	90.8	46 years
1992	1,714,482,245	1,605,481,514	93.6	16 years
1994	2,108,309,129	1,945,856,251	92.3	38 years
1996	2,539,008,893	2,390,236,436	94.1	30 years
1997	2,956,497,152	2,813,304,611	95.2	23 years
1998	3,471,898,003	3,337,293,439	96.1	22 years
1999	3,997,927,795	3,875,171,467	96.9	21 years
2000	4,611,913,087	4,427,102,390	96.0	20 years
2001	4,688,408,562	4,521,403,578	96.4	20 years
2002	4,576,948,810	4,425,392,396	96.7	20 years
2003	4,818,943,695	4,685,890,770	97.2	20 years
2004	5,051,728,157	4,937,493,861	97.7	20 years
2005	5,571,842,384	5,380,999,357	96.6	20 years
2006	5,859,994,198	5,668,535,060	96.7	20 years
2007	6,718,761,091	6,526,534,941	97.1	20 years
2008	6,976,811,927	6,784,291,685	97.2	20 years

ACTUARIAL VALUATION (CONTINUED)

Summary of Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability

The schedule below compares total actuarial accrued liabilities to smoothed assets at actuarial value and unfunded actuarial accrued liabilities to payroll over time.

The smoothed assets to total liabilities ratios show the growth of assets compared to the growth of liabilities. The unfunded liabilities to covered payroll ratios are a measure of the ability of SDRS to meet its long-term obligations.

Level or increasing values for the first ratio and level or declining values for the second ratio are an indication of stable or improving funding.

Fiscal year	Actuarial accrued liability	Actuarial value of assets	Actuarial assets as a % of accrued actuarial liability	Unfunded actuarial accrued liability	Total covered payroll (000,000)	Unfunded liability as a % of payroll
1985 – 86	\$ 875,821,002	\$ 742,055,584	84.7%	\$133,765,418	\$481.5	27.8
1987 – 88	1,078,235,569	1,050,836,113	97.5	27,399,456	530.0	5.2
1989 – 90	1,404,616,511	1,275,091,534	90.8	129,524,977	582.7	22.2
1991 – 92	1,714,482,245	1,605,481,514	93.6	109,000,731	694.3	15.7
1993 – 94	2,108,309,129	1,945,856,251	92.3	162,452,878	788.6	20.6
1995 – 96	2,539,008,893	2,390,236,436	94.1	148,772,457	820.1	18.1
1997	2,956,497,152	2,813,304,611	95.2	143,192,541	835.1	17.1
1998	3,471,898,003	3,337,293,439	96.1	134,604,564	875.9	15.4
1999	3,997,927,795	3,875,171,467	96.9	122,756,328	902.5	13.6
2000	4,611,913,087	4,427,102,390	96.0	184,810,697	944.6	19.6
2001	4,688,408,562	4,521,403,578	96.4	167,004,984	1,029.7	16.2
2002	4,576,948,810	4,425,392,396	96.7	151,556,414	1,080.1	14.0
2003	4,818,943,695	4,685,890,770	97.2	133,052,925	1,117.2	11.9
2004	5,051,728,157	4,937,493,861	97.7	114,234,296	1,164.0	9.8
2005	5,571,842,384	5,380,999,357	96.6	190,843,027	1,206.1	15.8
2006	5,859,994,198	5,668,535,060	96.7	191,459,138	1,229.9	15.6
2007	6,718,761,091	6,526,534,941	97.1	192,226,150	1,297.2	14.8
2008	6,976,811,927	6,784,291,685	97.2	192,520,242	1,363.9	14.1



The solvency test is a comparison of the adequacy of SDRS smoothed assets to the AAL for: 1) active member contributions; 2) benefits for present benefit recipients; and 3) employer-financed active member benefits.

Solvency Test

Fiscal year	Actuarial accrued liability for			Actuarial value of assets	Portion of actuarial accrued liability covered by actuarial value of assets for		
	(1) Member contributions	(2) Current retirees and beneficiaries and terminated employees	(3) Current employees: employer financed		(1)	(2)	(3) ¹
1987 – 88	231,163,590	397,780,471	449,291,508	1,050,836,113	100.0	100.0	93.9
1989 – 90	283,584,495	524,168,024	596,863,992	1,275,091,534	100.0	100.0	78.3
1991 – 92	350,130,362	685,091,034	679,260,849	1,605,481,514	100.0	100.0	84.0
1993 – 94	421,403,799	834,896,391	852,008,939	1,945,856,251	100.0	100.0	80.9
1995 – 96	484,228,278	1,017,938,827	1,036,841,788	2,390,236,436	100.0	100.0	85.7
1997	517,164,580	1,158,342,002	1,280,990,570	2,813,304,611	100.0	100.0	88.8
1998	553,386,759	1,375,461,393	1,543,049,851	3,337,293,439	100.0	100.0	91.3
1999	560,276,444	1,595,941,304	1,841,710,047	3,875,171,467	100.0	100.0	93.3
2000	618,625,484	1,889,571,734	2,103,715,869	4,427,102,390	100.0	100.0	91.2
2001	624,310,539	2,045,346,869	2,018,751,154	4,521,403,578	100.0	100.0	91.7
2002	691,820,949	2,236,330,911	1,648,796,950	4,425,392,396	100.0	100.0	90.8
2003	741,729,358	2,435,411,371	1,641,802,966	4,685,890,770	100.0	100.0	91.9
2004	807,055,387	2,637,073,090	1,607,599,680	4,937,493,861	100.0	100.0	92.9
2005	831,968,303	2,987,636,584	1,752,237,497	5,380,999,357	100.0	100.0	89.1
2006	854,928,129	3,174,042,596	1,831,023,473	5,668,535,060	100.0	100.0	89.5
2007	894,141,271	3,405,374,537	2,419,245,283	6,526,534,941	100.0	100.0	92.1
2008	946,604,328	3,811,968,488	2,218,239,111	6,784,291,685	100.0	100.0	91.3

The schedule below presents information about the system's active membership used in the current and previous actuarial valuations.

Schedule of Active Member Valuation Data

Valuation date	# of active members	Covered payroll (000,000)	Average annual pay	% Increase in average pay
1987	27,906	500.2	17,924	1.9
1988	28,411	530.0	18,655	4.1
1989	28,749	554.9	19,302	3.5
1990	29,378	582.7	19,835	2.8
1991	30,524	616.8	20,207	1.9
1992	31,717	694.3	21,890	8.3
1993	32,512	731.1	22,487	2.7
1994	33,301	788.6	23,681	5.3
1995	33,390	811.1	24,292	2.6
1996	32,624	820.1	25,139	3.5
1997	32,397	835.1	25,776	2.5
1998	32,903	875.9	26,620	3.3
1999	33,664	902.5	26,810	0.7
2000	34,180	944.6	27,637	3.1
2001	34,887	1,029.7	29,515	6.8
2002	35,130	1,080.1	30,745	4.2
2003	35,114	1,117.2	31,818	3.5
2004	35,408	1,164.0	32,875	3.3
2005	35,774	1,206.1	33,715	2.6
2006	36,074	1,229.9	34,094	1.1
2007	37,311	1,297.2	34,769	2.0
2008	37,707	1,363.9	36,170	4.0

¹ Indicates the percentage of liabilities in this category currently funded, after fully funding categories (1) and

ACTUARIAL VALUATION (CONTINUED)

Schedule of Retirees and Beneficiaries Added to and Removed from Benefit Payroll

The schedule below identifies retirees and beneficiaries benefits considered in the current and previous actuarial valuations.

Valuation date	beginning of year balance	Number added to payroll	Number removed from payroll	End of year balance	Annual Pension added to payroll	Annual pension removed from payroll	Annual Pension benefit amount	Average annual benefit	% increase in average benefit
2002	15,390	1,051	548	15,893	\$14,781,382	\$4,286,698	\$175,339,813	\$11,033	5.4
2003	15,893	1,112	564	16,441	16,904,111	4,612,777	191,738,495	11,662	5.7
2004	46,441	1,207	619	17,029	19,647,803	4,991,607	211,424,721	12,416	6.5
2005	17,029	1,121	602	17,458	16,955,458	4,970,672	228,469,621	13,020	4.9
2006	17,458	1,130	602	18,076	17,273,416	5,866,751	245,707,324	13,593	4.4
2007	18,076	1,306	663	18,719	20,128,796	5,699,854	265,922,928	14,206	4.5
2008	18,719	1,279	677	19,321	20,931,066	6,957,387	297,672,788	15,407	8.5

¹ Only biennial data available. Data prior to fiscal year 1988 not avail-

SUMMARY OF BENEFIT PROVISION CHANGES

	2007 actuarial valuation	2008 actuarial valuation	% change	Comparison of Actuarial Valuation Results
Active members				
Number	37,311	37,707	1.1	
Average age	45.6	45.7	0.3	
Average credited service	11.1	11.1	0.0	
Annual prior year's compensation of members	\$1,297,279,457	\$1,363,865,982	5.1	
Average annual compensation	\$34,769	\$36,170	4.0	
Benefit recipients				
RETIRED MEMBERS				
Number ¹	15,631	16,170	3.4	
Average age	72.0	71.9	(0.1)	
Total annualized benefits	\$240,502,508	\$269,603,017	12.1	
Average annualized benefits	\$15,386	\$16,673	8.4	
BENEFICIARIES				
Number ¹	2,742	2,809	2.4	
Total annualized benefits	\$21,507,155	\$24,135,399	12.2	
Average annualized benefits	\$7,844	\$8,592	9.5	
DISABILITIES				
Number	346	342	(1.2)	
Total annualized benefits	\$3,913,265	\$3,934,422	0.5	
Average annualized benefits	\$11,310	\$11,504	1.7	
Total benefit recipients				
Number	18,719	19,321	3.2	
Total annual benefits	\$265,922,928	\$297,672,788	11.9	
Average annual benefits	\$14,206	\$15,407	8.5	
Terminated members				
Number — vested	7,305	7,477	2.4	
Number — non-vested ² (entitled to accumulated contributions only)	6,700	6,929	3.4	
Total terminated members	14,005	14,406	2.9	
Total system members	70,035	71,434	2.0	
Results of actuarial valuation				
Normal cost (without expenses)	11.184%	11.228%	0.4	
(with expenses)	11.458%	11.502%	0.4	
Frozen unfunded actuarial accrued liability	\$192,226,150	\$192,520,242	0.2	
Market value of assets	\$8,158,168,676	\$7,312,107,461	(10.4)	
Actuarial value of assets	\$6,526,534,941	\$6,784,291,685	3.9	
Actuarial accrued liability (AAL)	\$6,718,761,091	\$6,976,811,927	3.8	
Actuarial accrued liability funded ratio				
(actuarial value of assets/AAL)	97.1%	97.2%	0.1	
(market value of assets/AAL)	121.4%	104.8%	(13.7)	
Projected years to fund level funding requirements	20	20	NA	

During the 2008 South Dakota Legislative session, benefit changes were made to SDRS that have been reflected in the 2008 Actuarial Valuation.

Summary of Benefit Provision Changes

¹ In addition, there are 47 and 44 members or beneficiaries as of July 1, 2007 and July 1, 2008, respectively, whose benefits are currently suspended, but who are entitled to future benefits.

² Entitled to accumulated contributions only.

PLAN SUMMARY

South Dakota Retirement System (SDRS)

Effective Date

SDRS was established effective July 1, 1974. The Supreme and Circuit Court Judicial Retirement System, District County Court and Municipal Court Judges' Retirement Program, South Dakota Teachers' Retirement System, South Dakota Municipal Retirement System, South Dakota Law Enforcement Retirement System, South Dakota Public Employees' Retirement System and South Dakota Board of Regents Retirement System (effective July 1, 1975) were consolidated into SDRS.

Type of System

SDRS is a governmental retirement system created by Act of the State of South Dakota. The retirement system is administered by the board of trustees, consisting of two state government members; two teacher members; a participating municipality member; a participating county member; a currently contributing Class B member other than a justice, judge or magistrate judge; a justice, judge, or magistrate judge; a participating classified employee member; one head of a principal department or one head of a bureau under the office of executive management; an individual appointed by the governor; a county commissioner of a participating county; a school district board member; an elected municipal official of a participating municipality; a faculty or administrative member employed by the Board of Regents; a retiree; and an investment council representative, ex-officio non-voting.

The board of trustees appoints an administrator as the system's chief executive officer.

Employers Included

Employers include the State of South Dakota and its departments, bureaus, boards, or commissions, and any of its governmental or political subdivisions or any public corporation of the State of South Dakota that elects to become a participating unit.

Members

All of the following permanent full-time employees are included as members in the system:

- All state employees
- All teachers
- All justices, judges, and magistrate judges
- All law enforcement employees of counties and municipalities that are participating with their Class B employees
- All general employees of counties and municipalities that are participating with their Class A employees
- All classified employees of school districts that are participating with their classified employees
- All employees of the Board of Regents
- All state law enforcement officers



Employees of the Department of Labor hired before July 1, 1980 who elected to remain covered under a former retirement plan, and members of the governing body of any participating county, municipality, or other public subdivision are excluded from SDRS membership.

Membership is immediate upon hire and is subdivided into two classes as follow:

- Class A member: all members other than Class B members.
- Class B member: members who are justices, judges and magistrate judges (Class B Judicial members) and state law enforcement officers, municipal police, municipal firefighters, penitentiary correctional staff, county sheriffs, deputy county sheriffs, conservation officers, parole agents, air rescue firefighters, campus security officers, court services officers, certain park rangers and certain jailers (Class B Public Safety members).

Class A members constitute 94 percent of SDRS membership.

Credited service is the period of employment for an SDRS member which is considered in determining the amount of benefits. It includes the following:

- Years and fractional years for which member contributions were made (contributory service).
- The period of non-contributory service credited prior to July 1, 1974 under the prior retirement systems consolidated under this system.
- For employees of the Board of Regents, the period of service between April 1, 1964 and June 30, 1975 for which purchase was made to Bankers Life and the period of service prior to April 1, 1964, up to a maximum of 20 years, for which purchase was made.
- Periods of non-contributory service credited due to specific legislation since 1974.

Credited service may be purchased for public employment for which members are not entitled to retirement benefits, at a cost reflecting an actuarially determined sliding scale based on age, subject to a minimum of 100 percent of combined member and employer contributions. Credited service purchased after July 1, 2004, shall not be considered contributory service for eligibility purposes.

Credited service is purchased with an after-tax payment unless the member's employer elects to permit purchase on a pre-tax basis under Section 414(h) of the Internal Revenue Code.

Compensation is W-2 wages, plus any amount used to purchase a member's individual retirement plan, plus a member's contribution to SDRS made on a before-tax basis, plus any amount contributed to a Section 125 cafeteria plan, paid during the period of credited service. Compensation does not include lump sum termination pay. Compensation for members hired after June 30, 1996 is limited as prescribed in Section 401(a)(17) of the Internal Revenue Code.

Service Considered

Compensation

PLAN SUMMARY (CONTINUED)

Final Average Compensation

Final average compensation is the highest average annual compensation earned by a member during 12 consecutive calendar quarters of the last 40 such quarters during periods of credited service. The final average compensation is limited by statutory provisions that prevent extraordinary increases in compensation immediately before retirement.

Employer Contributions

Employer contributions equal those amounts contributed by members except for the additional contributions noted below.

Member Contributions

Class A members: 6 percent of compensation
Class B Public Safety members: 8 percent of compensation
Class B Judicial members: 9 percent of compensation

Member contributions are made on a pre-tax basis as permitted under Section 414(h) of the Internal Revenue Code.

Accumulated Contributions

Accumulated contributions are equal to member and employer contributions (or 75 percent of employer contributions for members with less than three years of contributory service) credited with interest on a monthly basis at a rate annually established by the board of trustees, that is no greater than 90 percent of the average 91-day U.S. Treasury Bill rate for the immediately preceding calendar year. Such rate shall have no minimum limitation and shall not be greater than the assumed rate of investment return, which is currently 7.75 percent.

Additional Contributions

Effective July 1, 2002, employers contribute 6.2 percent of Class A member's calendar year compensation in excess of the maximum taxable amount for Social Security for the calendar year. These additional contributions are not included in accumulated contributions.

Other Public Benefits

Eighty percent of the benefits provided as "primary insurance amount or primary Social Security" under the Federal Social Security Act.

Cost-of-Living Adjustment (COLA)

The annual increase in the amount of the SDRS benefits payable on each July 1st is equal to a 3.1 percent increase compounded annually and prorated if the benefit has not been paid for at least 12 months.

All benefits except those depending on the member's accumulated contributions are annually increased by the cost-of-living adjustment.



The normal retirement date is age 65 with three years of contributory service for Class A and Class B Judicial members of the system. Normal retirement date is age 55 with three years of contributory service for Class B Public Safety members.

Normal Retirement Date

Members are entitled to retire with a benefit commencing the first of the month in which they reach normal retirement date and payable for life, with an automatic 60 percent surviving spouse's benefit paid for the spouse's lifetime.

Normal Retirement Benefit

Class A Benefit

The Class A benefit is the larger of that provided by the following standard formula or alternate formula:

Standard Formula

Enhanced Benefit

1.7 percent times final average compensation times years of credited service as a Class A member before July 1, 2008, plus

Base Benefit

1.55 percent times final average compensation times years of credited service as a Class A member after July 1, 2008.

OR

Alternate Formula

Enhanced Benefit

2.4 percent times final average compensation times years of credited service as a Class A member before July 1, 2008, plus

Base Benefit

2.25 percent times final average compensation times years of credited service as a Class A member after July 1, 2008 less

80 percent of primary Social Security benefit.

Class B Public Safety Benefit

The Class B benefit for Class B Public Safety members is:

Enhanced Benefit

2.4 percent times final average compensation times years of credited service as a Class B Public Safety member before July 1, 2008, plus

Base Benefit

2.0 percent times final average compensation times years of credited service as a Class B Public Safety member after July 1, 2008.

PLAN SUMMARY (CONTINUED)

Class B Judicial Benefit

The Class B benefit for Class B Judicial members is determined by adding the enhanced and base benefit for both the first 15 years of credited service and years of credited service in excess of 15, as follows:

First 15 years of Credited Service

Enhanced Benefit

3.733 percent times final average compensation times the first 15 years of credited service as a Class B Judicial member before July 1, 2008, plus

Base Benefit

3.333 percent times final average compensation times all other such years of credited service as a Class B Judicial member after July 1, 2008.

PLUS

Years of Credited Service in Excess of 15

Enhanced Benefit

2.4 percent times final average compensation times years of credited service as a Class B Judicial member before July 1, 2008, in excess of 15 years, plus

Base Benefit

2.0 percent times final average compensation times all other such years of credited service as a Class B Judicial member after July 1, 2008.

All of the above benefits are paid monthly.

SDRS benefits are limited to the maximum benefit under Section 415 of the Internal Revenue Code, except for the portion of benefits attributable to any after tax contributions made prior to July 1, 1984.

Delayed Retirement Benefit

The monthly benefit payable upon retirement after normal retirement date is based on credited service and final average compensation to date of actual retirement.

Special Early Retirement Date (Rule of 85, Rule of 80 and Rule of 75)

The special early retirement date for Class A members is the date at which a member's age plus credited service total 85, but not less than age 55. The special early retirement date for Class B Judicial members is the date at which age plus credited service total 80, but not less than age 55. The special early retirement date for Class B Public Safety members is the date at which age plus credited service total 75, but not less than age 45.

Members are entitled to retire at special early retirement date with a benefit equal to the normal retirement benefit based on credited service and final average compensation to date of retirement, with no reduction for early payment.



Any member with at least three years of contributory service can retire in the ten years preceding normal retirement date. The member will be entitled to receive the normal retirement benefit based on credited service and final average compensation to date of retirement, reduced by 1/4 of 1 percent for each full month by which commencement of payments precedes the earlier of the normal retirement date or the special early retirement date. Benefits commence on the first of the month following retirement (or the date chosen for payment to commence) and 30 days after the application for retirement benefits has been received by SDRS.

Early Retirement Benefit

A terminated member with at least three years of contributory service will be entitled to receive the normal or early retirement benefit payable at either normal or early retirement based on the member's credited service at the time of termination of employment and increased by the cost-of-living adjustment from the date of termination to the date benefits commence.

Vested Benefit and Portable Retirement Option

In lieu of any monthly lifetime retirement benefits under the system, a terminating member may receive a lump sum of his accumulated contributions under the portable retirement option. Members who are rehired may redeposit their accumulated contributions plus interest within two years of rehire to reinstate their credited service.

A contributing member, who becomes disabled with at least three years of contributory service, or was disabled by accidental means while performing the usual duties of his job, is entitled to an immediate monthly disability benefit.

Disability Benefit

The disability benefit is equal to:

- For the first 36 months, 50 percent of the member's final average compensation, increased 10 percent for each eligible child to a maximum of four children. The maximum benefit payable is 100 percent of such compensation (increased by the cost-of-living adjustment) reduced by earned income.
- Starting with the 37th month,
 - if the member is receiving disability benefits from Social Security, the greater of:
 - 50 percent of final average compensation plus 10 percent for each eligible child to a maximum of 90 percent less the amount of primary Social Security.
 - 20 percent of final average compensation increased by the COLA
 - the unreduced accrued retirement benefit

PLAN SUMMARY (CONTINUED)

— if the member is not receiving disability benefits from Social Security, the greater of:

- 20 percent of final average compensation increased by the COLA
- the unreduced accrued retirement benefit

The maximum benefit is 100 percent of final average compensation (increased by the cost-of-living adjustment) reduced by earned income and primary Social Security.

The above benefits are payable monthly.

At age 65 (or when there are no eligible children, if later), but not before five years of disability, the benefit payable is converted to the normal retirement benefit based on compensation increased by the cost-of-living adjustment for the period between the date of disability and normal retirement date (projected compensation), and credited service as if employment had continued uninterrupted to normal retirement date (projected credited service).

Survivor Benefits

Pre-Normal Retirement Age and Post-Disability Deaths

If an active member with at least one year of contributory service, or a member receiving a disability benefit commencing after July 1, 1974, dies, the surviving spouse having the care of eligible dependent children will receive an immediate benefit equal to 40 percent of the member's final average compensation, increased 10 percent for each child to a maximum of six children. If the surviving eligible dependent children are under the care of a guardian, the benefit payable will be 20 percent of the member's final average compensation for each child (to a maximum of five children).

The above survivor benefits are all payable monthly without improvements and reduced by 75 percent of primary Social Security benefit.

If no benefit is payable as defined above or payment has ceased, and the member's accumulated contributions have not been withdrawn, the spouse is entitled to receive at the spouses's age 65 a benefit equal to 60 percent of the normal retirement benefit that would have been payable to the deceased member at normal retirement date based on projected credited service and projected compensation, and further increased by the cost-of-living adjustment for any time between normal retirement date and payment commencement date.

Post-Normal Retirement Age and Post-Retirement Deaths

Upon the death of a retiree or any member at or beyond normal retirement age, the surviving spouse is entitled to receive 60 percent of the monthly retirement benefit the member was receiving or was eligible to receive.



Terminated Member

If a terminated member dies prior to benefit commencement, the accumulated contributions are refunded to the designated beneficiary, children or estate in a lump sum.

Optional Spouse Coverage

A member may elect to provide an additional benefit payable to the surviving spouse within 365 days after becoming a member, within 90 days following attainment of age 35, or within 90 days after the first anniversary of marriage. This optional coverage may continue until the member's spouse attains age 65, the death or disability of the member, the death of the member's spouse, termination of the member's marriage to his spouse, or the member's termination of employment. The elected additional monthly benefit is equal to 40 percent of the member's final average compensation multiplied by the cost-of-living adjustment for each full year between the date of death or disability of the member to payment commencement. Such benefit is paid upon the member's death from the time there are no eligible dependent children until the spouse dies or attains age 65. The cost of this protection is paid by the member through an additional contribution of 1.2 percent of compensation, which will not be matched by the employer and is not refundable.

Accumulated Contributions as Minimum Benefits

If the aggregate benefit payments received by a member and the member's beneficiary (excluding benefits received under the optional spouse coverage benefit provisions) do not equal the sum of the accumulated contributions then the difference will be paid to the member's designated beneficiary, children or estate in a lump sum.

The monthly retirement benefits may be modified to an optional form of payment which is the actuarial equivalent of the benefit due under the system. A Social Security level income payment option is available for members who retire before age 62.

Administrative expenses are paid from the system's assets in an amount not to exceed 3 percent of the annual member and employer contributions received by the system.

Retired members' and terminated vested members' benefits have been increased to reflect the benefit formula currently in effect for active members.

This plan summary is effective July 1, 2008.

Optional Forms of Retirement Payments

Administrative Expenses

Retired Members

INVESTMENT SUMMARY



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Asset Allocation

INVESTMENT ANALYSIS

The SDRS trust fund is invested under the direction of the South Dakota Investment Council. The council is composed of five members at large with financial backgrounds, the state treasurer, the school and public lands commissioner and an appointee from SDRS. The council is a policy making board and attends to matters such as asset allocation, portfolio strategy and the selection or dismissal of outside investment managers.

The Investment Council

The data in the investment section of this report was prepared by the South Dakota Investment Council, using time weighted rates of return as defined by CFA standards. The South Dakota Retirement System in conjunction with the South Dakota Investment Council and external auditors, KPMG LLP, prepared the investment section of this report.

The South Dakota Investment Council has five objectives for managing the assets of the South Dakota Retirement System. The goal is to assure the continued financial health of SDRS.

Investment Objectives and Policy

Meeting the first two objectives as follows will assure that this goal is met:

- Achieve the actuarial required rate of return over the long-term
- Achieve a return in excess of the actuarial rate of return over the long-term

By meeting or exceeding the first objective, SDRS will be able to pay current and projected benefits. By meeting or exceeding the second objective over the long term, SDRS will be able to improve benefits and ultimately reach the system's long-term goals for benefit levels.

The remaining three objectives attempt to measure performance on a relative basis. The final three objectives are important in judging the investment council's delivery of competitive returns as compared to established benchmarks and to large pension plans making up a peer universe.

- Achieve favorable total fund performance relative to a capital market benchmark reflective of the investment council's normal asset allocation policy

The third objective is important in judging the investment council's delivery of a competitive rate of return. This objective means that the performance of all actively managed assets are to be measured against the indexed returns that would be earned if the assets were invested in the investment council's selected capital market benchmarks.

INVESTMENT SUMMARY (CONTINUED)

- Achieve favorable specific asset category performance relative to the identified capital market benchmark

The investment council strives to outperform the passive opportunity that exists in each of the asset categories in which SDRS assets are involved.

- Achieve favorable performance over the long term relative to professionally managed multi-billion dollar pension funds

The last objective evaluates the investment council performance relative to other large professionally managed plans.

The key investment policy decision made by the investment council is asset allocation. The policy reflects their best judgement of the risk versus return trade-off that all investors must make. The investment council makes this judgement based on an assessment of long-term future expected rates of return and in part on historical returns of stocks, bonds, cash and other capital market areas. Certain behavioral characteristics of these asset categories, such as standard deviation (measure of risk) and correlation (the degree that asset prices tend to move in the same or different direction) play an important role in making the asset allocation decision.

Prudent Man Standard

State law requires that the South Dakota Retirement System trust fund be invested according to the prudent man standard. South Dakota Codified Law defines the prudent man standard as follows:

Any investment under the provisions of SD Codified Law Sections 4-5-12 to 4-5-39, inclusive, shall be made with the exercise of the degree of judgement and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercised in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Though monthly benefit payments exceed monthly contributions, the South Dakota Retirement System is not subject to sudden, substantial and unexpected withdrawals. As a result, it is not necessary to have a high percentage of assets in short-term investments unless this is deemed to be the best investment strategy. This allows the trust fund to be as fully invested in stocks, bonds and other alternatives as investment strategy dictates.



Performance

The total fund return for FY 2008 was (8.65) percent. The investment council's benchmark return for FY 2008 was (4.2) percent. This capital market benchmark was 57 percent global equity, 24 percent fixed income, 7 percent arbitrage, 5 percent real estate, 5 percent private equity, 1 percent cash and 1 percent TIPS. The 10-year annualized return was 7.4 percent versus the benchmark return of 6.3 percent.

The internal equity fund earned (21) percent in FY 2008 versus a benchmark return of (11.0) percent. The 10-year return for the internal equity fund was 3.9 percent versus a benchmark return of 4.6 percent.

SDRS' bond fund returned 6.5 percent in FY 2008 versus a benchmark return of 6.5 percent. The 10-year return for the internal bond fund was 6.0 percent versus a benchmark return of 6.0 percent.

Returns earned by other portfolios and outside managers in FY 2008 (included in total fund returns) were: (17.4) percent merger arbitrage; 6.5 percent convertible arbitrage; (13.2) percent DFA; (8.9) percent MW Post; (20) percent Alliance Bernstein Global Strategic; (25.4) percent Brandes; (8.6) percent Capital Guardian; (10.8) percent GE Asset Management; (16.1) percent Research Affiliates; (21.6) percent Bernstein; 6.2 percent CVI Global Value Fund; (59.1) percent CVI Specialized Ventures; (10.9) percent TCW; (1.8) percent Oaktree; (0.2) percent Blackstone Distressed Securities; 19.2 percent Blackstone Credit Liquidity; 4.8 percent Blackstone Kalix Offshore and 30.5 percent Bridgewater. Blackstone, Cypress, Apollo, AIG, Capital International, Doughty Hanson, Kohlberg Kravis Roberts Associates, Lehman Brothers, Silver Lake, Credit Suisse, CarVal, Carlyle, CINVIN Fund 4, CVC and Elevation do not have time-weighted rates of return because of the nature of their investments.

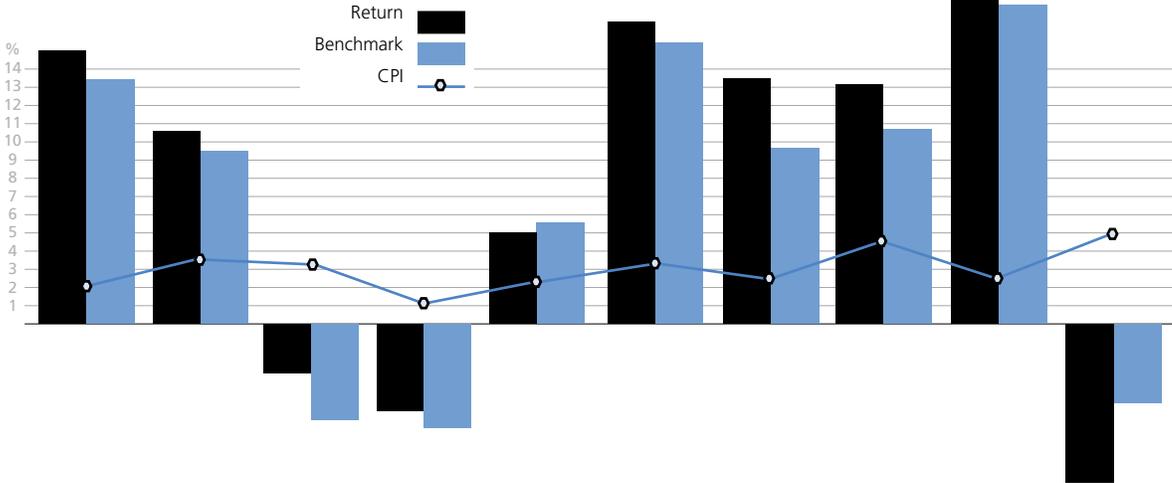
The liabilities of SDRS are directly related to inflation. The difference between inflation and SDRS' total return over time is a key indicator of the financial strength of the system.

During FY 2008 inflation averaged 5.0 percent while SDRS' total return was (8.65) percent. Over the last 10 years, inflation has averaged 3.0 percent and total returns 7.4 percent, creating a real return of 4.4 percent.

Real Rates of Return

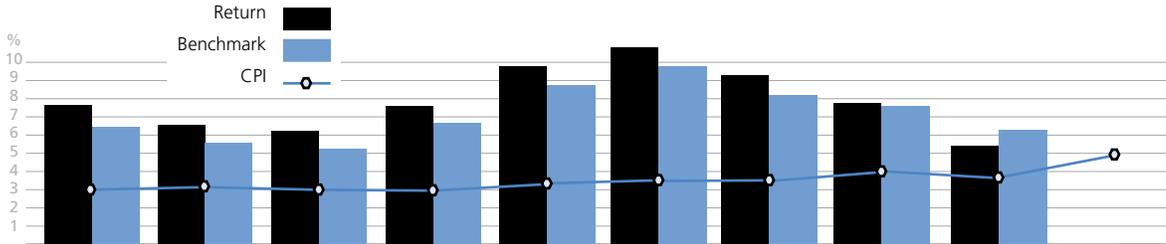
INVESTMENT SUMMARY (CONTINUED)

Investment Performance Compared to Capital Market Benchmark and Inflation



	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Investment Return	14.6%	10.8%	(2.9)%	(4.9)%	5.0%	16.6%	13.3%	13.1%	21.39%	(8.65)%
Benchmark	13.3%	9.7%	(5.1)%	(5.8)%	5.4%	15.5%	9.6%	10.7%	17.6%	(4.2)%
CPI	2.0%	3.7%	3.2%	1.1%	2.1%	3.3%	2.5%	4.3%	2.7%	5.0%

Cumulative Investment Performance Compared to Capital Market Benchmark and Inflation



	FY99-08	FY00-08	FY01-08	FY02-08	FY03-08	FY04-08	FY05-08	FY06-08	FY07-08	FY08
Investment Return	7.4%	6.6%	6.1%	7.5%	9.7%	10.6%	9.2%	7.8%	5.3%	(8.65)%
Benchmark	6.3%	5.6%	5.1%	6.6%	8.9%	9.6%	8.1%	7.6%	6.1%	(4.2)%
CPI	3.0%	3.1%	3.0%	3.0%	3.3%	3.6%	3.6%	4.0%	3.8%	5.0%



As of June 30, 2008, the South Dakota Investment Office managed 75 percent of SDRS' investments. The remaining 25 percent was invested by outside managers selected and monitored by the South Dakota Investment Council. The following are the outside managers that were selected by the investment council. The Post Advisory Group LLC [\$978,000], CVI Specialized Ventures Fund [\$13 million], TCW Specialized Mtg Credits [\$30.1 million], Oaktree Loan Fund 2x [\$50.2 million], Blackstone Distressed Securities [\$39.8 million], and Blackstone Credit Liquidity [\$17 million] invest in distressed and high-yield fixed-income securities. AllianceBernstein Global Opportunities Offshore Hedge Fund [\$13.4 million], AllianceBernstein Global Strategic Fund [\$27 million], Bridgewater Pure Alpha Fund II [\$60.9 million], Brandes Investment Partners [\$31 million], CVI Global Value Fund [\$163.7 million], Research Affiliates [89 million], Capital Guardian Global Equity Fund [\$121.6 million], GE Asset Management [\$44.6 million], and Dimensional Fund Advisors Inc. [\$32.8 million] invest in global equities. Blackstone Real Estate Partners [\$709.7 million], Doughty Hanson & Co European Real Estate [\$28.8 million], Apollo Real Estate Advisors LP [\$48.4 million], and Cargill North American Real Estate Partners [\$161.5 million] invest in real estate. DLJ Merchant Banking Partners LP [\$4.5 million], KKR Associates [\$73 million], AIG Capital Partners [\$23.9 million], CINVIN Fund 4 [\$57.2 million], Lehman Crossroads Investment Advisors LP [\$14 million], Silver Lake Partners LP [109.4 million], Doughty Hanson Private Equity [\$95.1 million], Blackstone Private Equity [\$183.7 million], Elevation Partners [\$20.6 million], CVC [\$46.1 million], Carlyle IV [\$35 million], Riverstone [\$1.6 million] and Cypress Merchant Banking Partners LP [\$16.4 million] invest in private equity.

Investment Managers

Schedule of Investment Management Expenses

Investment managers	Management expenses
State of South Dakota Investment Council	\$4,699,130
AIG	563,594
Alliance Bernstein Global Strategic Fund	211,218
Apollo Real Estate Advisors LP	695,282
Blackstone Distressed Debt	150,000
Blackstone Private Equity	654,769
Blackstone Real Estate Partners	7,214,500
Brandes Investment Partners	379,750
Capital International	1,461,168
Cargill North American Real Estate Partners	(1,186,490)
Carlyle	597,255
CINVIN	2,338,751
CVC	498,354
CVI	3,053,867
Cypress Merchant Banking Partners LP	235,870
Dimensional Fund Advisors, Inc.	270,459
DLJ Merchant Banking Partners LP	83,057
Doughty Hanson & Co. European Real Estate	1,894,475
Doughty Hanson & Co. Private Equity IV	1,323,218
Elevation Partners	562,633
GE Asset Management China	971,949
Kohlberg Kravis Roberts Associates	224,584
Lehman Crossroads Investment Advisors LP	474,936
Oaktree Loan Fund 2x	231,265
Nicholas Applegate	29,348
Post Advisory Group LLC	110,734
Research Affiliates	159,563
Riverstone	646,852
Silver Lake Partners LP	2,041,469
TCW Specialized Mtg Credits	143,633
Total investment manager expenses	\$30,735,193

Schedule of Investment Management Expenses and Commissions For the Year Ended June 30, 2008

INVESTMENT SUMMARY (CONTINUED)

Summary of Broker Commissions¹

	Investment type	Commissions
	Fixed income	\$ 877,278
	Global equity	4,080,355

Summary of Investment Portfolios

As of June 30, 2008

	Market value	Future positions	Exposure with futures	Percentage with futures overlay on cash markets
Domestic Fixed Income				
Internal Investment Grade	\$996,305,396			
Internal High Yield	117,591,231			
Blackstone	56,861,446			
CarVal	177,465,504			
Oaktree	50,224,823			
Post Advisory Group	978,548			
TCW	30,833,823		\$1,430,260,771	19.6
Global Equity				
Internal Global Equity	3,326,439,355			
Alliance Bernstein	27,232,265			
Brandes	31,155,550			
Capital Guardian	85,549,625			
Dimensional Fund Advisors	32,771,463			
GE Asset Management	44,617,776			
Research Affiliates	89,204,911			
Equity Futures			\$3,636,970,945	49.8
Arbitrage Equity				
Internal Merger Arbitrage	202,041,758			
Internal Convertible Arbitrage	168,756,000			
Bernstein	13,422,694			
Blackstone	26,211,185			
Bridgewater	60,929,577		\$471,361,214	6.5
Real Estate				
Apollo	48,416,695			
Blackstone	709,771,325			
CarVal	161,529,437			
Doughty Hanson	28,829,606		\$853,586,506	13.0
Private Equities				
AIG	23,877,508			
Blackstone	183,745,045			
Capital International	36,047,336			
Carlyle	36,553,255			
CINVIN	57,187,434			
Credit Suisse	4,474,406			
CVC	46,144,798			
Cypress	16,371,774			
Doughty Hanson	95,109,575			
Elevation	20,625,984			
Kohlberg Kravis Roberts	73,045,670			
Lehman Brothers	14,001,325			
Silver Lake	109,410,786		\$716,594,896	9.8
Cash and Cash Equivalents				
Internal Shift Account	97,035,278	0	97,035,278	1.3
Total	\$7,300,770,167	\$ 0	\$7,205,809,610	100%

¹ For an itemized list of commissions by broker, contact SDRS.



The South Dakota Retirement System trust fund's internal global equity portfolio characteristics for the past 10 years are presented below. The SDRS internal equity portfolio is compared to the 2/3 S&P Global 1200 Index plus 1/3 S&P 500 Index benchmark.

Internal Equity Profile

South Dakota Investment Office	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Price/earnings ratio	29.6	27.0	26.0	26.8	22.9	19.2	15.6	16.6	16.0	13.67
Dividend yield	1.4%	1.2%	1.4%	1.8%	1.9%	2.0%	2.3%	2.5%	2.3%	2.91%
Price/book value ratio	7.5	10.4	5.4	4.2	4.0	3.8	3.1	3.5	3.7	2.66
Benchmark										
Price/earnings ratio	33.6	30.3	25.6	26.2	23.5	21.5	20.8	19.2	20.1	17.57
Dividend yield	1.2%	1.1%	1.3%	1.6%	1.7%	1.7%	2.2%	2.2%	2.0%	2.48%
Price/book value ratio	8.4	11.2	5.7	4.5	4.2	4.1	4.0	3.6	4.0	3.80

GLOSSARY

Price/earnings ratio: Ratio derived from price divided by earnings.

Dividend yield: Current dividends divided by current price expressed as a percentage.

Price/book value ratio: Ratio derived from price divided by book value per share.

Beta (market sensitivity): The historical relation between market movements and movements in the prices of securities in a current portfolio.

Ten Largest Holdings

	Percent of equity portfolio
ConocoPhillips	3.3
Wal-Mart Stores, Inc.	2.8
General Electric Co.	2.7
Pfizer, Inc.	2.3
Chevron Corp.	2.1
Microsoft Corp.	2.0
Total SA	2.0
Cisco Systems, Inc.	1.9
Honda Motor Co.	1.8
GlaxoSmithKline PLC	1.6
Total	22.5%

Distribution by Market Sector

Market sector	SDRS total equity	Bench
Consumer discretionary	12.2%	8.1%
Consumer staples	8.6	9.6
Energy	16.7	14.6
Financials	20.3	18.2
Health care	13.0	9.6
Industrials	7.5	10.7
Information technology	11.0	12.7
Materials	3.8	7.2
Telecommunications services	3.0	4.6
Utilities	2.3	4.7
Cash equivalents	1.6	0.0
Total	100.0%	100.0%

Additional holdings are available in the annual report of the South Dakota Investment Council.

South Dakota Investment Council
4009 West 49th Street, Suite 300
Sioux Falls, South Dakota 57106-3784

INVESTMENT SUMMARY (CONTINUED)

Bond Profile

The South Dakota Retirement System trust fund's internally managed fixed income (bond) portfolio characteristics for the past 10 years are presented below. The Lehman Aggregate Bond Index is presented for comparative purposes. The cash equivalents percent represents the percentage of the total bond portfolio invested in cash equivalents.

South Dakota Investment Office	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Number of issues	62	60	67	76	77	83	74	86	100	120
Average coupon	6.32%	6.23%	6.68%	6.41%	5.87%	5.62%	5.20%	5.38%	5.50%	5.42%
Yield to maturity	7.09%	7.76%	7.01%	6.72%	4.73%	5.44%	4.70%	6.00%	6.00%	5.67%
Average maturity (years)	7.70	6.88	7.02	8.40	7.46	7.50	5.80	5.47	6.14	6.60
Duration (years)	6.07	5.56	5.56	5.92	5.20	5.78	4.10	4.65	5.00	5.38
Average quality ¹	3.15	3.22	3.33	3.01	3.24	3.24	3.38	3.49	3.37	3.29
Cash equivalent %	2.20%	5.80%	0.50%	0.50%	4.70%	1.2%	13.8%	12.3%	7.6%	3.0%

Bond Index										
Average coupon	6.74%	6.85%	6.75%	6.44%	6.00%	5.32%	5.24%	5.30%	5.41%	5.37%
Yield to maturity	6.58%	7.24%	6.10%	5.21%	3.60%	4.68%	4.51%	5.81%	5.69%	4.99%
Average maturity (years)	8.89	7.77	8.24	6.91	6.70	7.47	6.21	7.28	7.39	7.80
Duration (years) ¹	5.54	4.91	4.74	4.54	3.90	4.77	4.67	5.06	5.12	5.36

Distribution Profile

The South Dakota Retirement System fixed income portfolio profile distribution is as follows:

Distribution by Duration

	Percent
0 to 2 years	6.0
2 to 3 years	7.0
3 to 4 years	25.2
4 to 5 years	18.6
5 to 6 years	11.3
6 to 8 years	18.7
Above 8 years	13.2
Total	100.0%

Distribution by Quality Rating

	Percent
Cash/cash equivalents	3.0
Aaa	66.6
Aa	6.5
A	7.4
Baa	6.5
Ba	9.1
B	0.9
Total	100.0%

Distribution by Coupon

	Percent
Cash/cash equivalents	3.0
0.00% – 4.00%	6.0
4.01% – 5.00%	36.6
5.01% – 6.00%	33.7
6.01% – 8.00%	18.3
8.01% and over	2.4
Total	100.0%

Distribution by Issue

	Percent
Cash/cash equivalents	3.0
U.S. Treasuries/Agencies	26.8
Mortgage backed securities	38.3
Investment grade corporates	21.4
High yield corporates	10.5
Total	100.0%

¹ (Aaa = 4, Aa = 3, A = 2, Baa = 1)

Asset allocation is an investor's most important investment issue. The South Dakota Investment Council and Office spend a significant amount of time dealing with complicated issues relating to the risk of the portfolio versus likelihood of achieving the investment objectives for the South Dakota Retirement System.

Asset Allocation

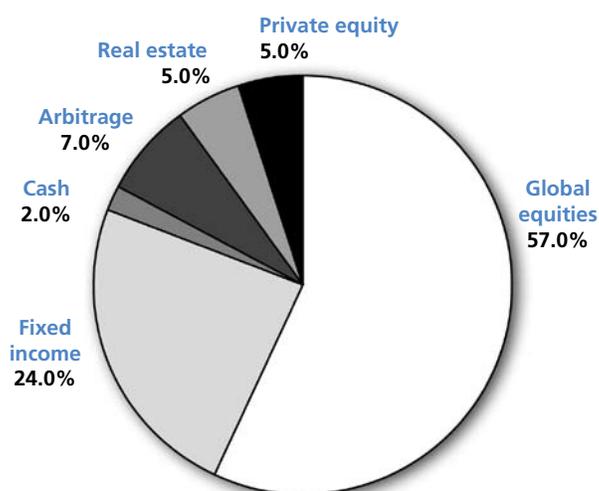
The Investment Office prepares a risk return analysis for use by the Investment Council when establishing the Capital Markets Benchmark each year. The primary factors include the expected long-term return, the volatility for each asset category and the correlation (degree to which they move in the same direction) of the returns of each category to each of the others. This analysis indicates an expected long-term return of 7.8 percent. This excludes any value added or detracted relative to index returns resulting from managing the portfolio. The estimated annual standard deviation is 13.3 percent. The statistics suggest there is a 66 percent chance the return for any year would be between (5.5) percent and 21.1 percent. There would be a 95 percent chance that the return would be between (18.8) percent and 34.4 percent.

The second analysis deals with the amount of equity-like characteristics implicit in the overall portfolio. The analysis focuses on the risk to the portfolio of a decline in the U.S. equity market which is thought to be the single largest risk exposure. Most asset categories have at least some degree of sensitivity to a U.S. stock market decline. The analysis is performed for a moderate decline and again for a severe decline scenario.

SDRS' asset allocation and underlying asset performance have continued to generate an attractive risk versus return profile. Ongoing analysis dealing with both the risk and return potential inherent in the investment council's asset allocation is an important element of continuing successful asset management for SDRS.

Asset Allocation as of June 30, 2008

	6/30/06	6/30/07	6/30/08
Global equities	56.9%	57.0%	57.0%
Fixed income	16.5	24.0	24.0%
Cash	8.3	2.0	2.0%
Arbitrage	6.9	7.0	7.0%
Real estate	6.4	5.0	5.0%
Private equity	5.0	5.0	5.0%



Time-Weighted Rates of Return

SOUTH DAKOTA RETIREMENT SYSTEM	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002
TOTAL INVESTMENT FUND	14.6%	10.8%	(2.9)%	(4.9)%
Cash equivalents	5.1%	5.7%	6.0%	2.5%
Investment office bond fund	2.4%	4.3%	10.0%	5.9%
Combined internal equity fund	19.5%	10.9%	(12.0)%	(12.2)%
Arbitrage convertible fund	7.6%	8.7%	6.5%	3.8%
Arbitrage merger fund	16.5%	18.4%	6.2%	2.1%
INDICES				
Bond index				
Fixed income benchmark	2.9%	3.8%	11.2%	7.0%
COMBINED INTERNAL EQUITY BENCHMARK	18.3%	11.0%	(17.1)%	(15.0)%
TOTAL FUND BENCHMARKS				
Russell/Mellon total billion \$ funds	11.5%	11.1%	(5.8)%	(6.6)%
Capital market benchmark	13.3%	9.7%	(5.1)%	(5.8)%
CONSUMER PRICE INDEX	2.0%	3.7%	3.2%	1.1%

Time-Weighted Annualized Rates of Return

SOUTH DAKOTA RETIREMENT SYSTEM	Fiscal 1999 – 2008	Fiscal 2000 – 2008	Fiscal 2001 – 2008	Fiscal 2002 – 2008
TOTAL INVESTMENT FUND	7.4%	6.6%	6.1%	7.5%
Cash equivalents	3.7%	3.6%	3.3%	2.9%
Investment office bond fund	6.0%	6.4%	6.7%	6.2%
Combined internal equity fund	3.9%	2.3%	1.3%	3.4%
Arbitrage convertible fund	5.9%	5.7%	5.4%	5.2%
Arbitrage merger fund	6.1%	5.0%	3.4%	3.0%
INDICES				
Bond index				
Fixed income benchmark	6.0%	6.4%	6.7%	6.1%
COMBINED INTERNAL EQUITY BENCHMARK	4.6%	3.1%	2.2%	5.3%
TOTAL FUND BENCHMARKS				
Russell/Mellon total billion \$ funds	6.0%	5.4%	4.7%	6.3%
Capital market benchmark	6.3%	5.6%	5.1%	6.6%
CONSUMER PRICE INDEX	3.0%	3.1%	3.0%	3.0%

Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008
5.0%	16.6%	13.3%	13.1%	21.39%	(8.65)%
1.4%	0.9%	2.1%	4.2%	5.3%	4.2%
14.4%	1.3%	9.1%	(0.2)%	6.7%	6.7%
(2.0)%	22.9%	9.9%	12.6%	22.0%	(21.0)%
13.1%	1.0%	0.9%	5.5%	6.3%	6.5%
8.5%	7.4%	3.0%	11.7%	8.7%	(17.4)%
13.4%	1.3%	7.9%	0.2%	6.7%	6.5%
(0.8)%	23.6%	9.0%	14.7%	23.6%	(11.0)%
3.1%	16.9%	14.8%	10.7%	17.7%	(5.0)%
5.4%	15.5%	9.6%	10.7%	17.6%	(4.2)%
2.1%	3.3%	2.5%	4.3%	2.7%	5.0%

Fiscal 2003 – 2008	Fiscal 2004 – 2008	Fiscal 2005 – 2008	Fiscal 2006 – 2008	Fiscal 2007 – 2008	Fiscal 2008
9.7%	10.6%	9.2%	7.8%	5.3%	(8.65)%
3.0%	3.3%	3.9%	4.5%	4.7%	4.2%
6.2%	4.7%	5.5%	4.4%	6.7%	6.7%
6.2%	8.0%	4.5%	2.8%	(1.8)%	(21.0)%
5.5%	4.0%	4.8%	6.1%	6.4%	6.5%
3.2%	2.1%	0.8%	0.1%	(5.2)%	(17.4)%
5.9%	4.5%	5.3%	4.4%	6.6%	6.5%
9.1%	11.2%	8.3%	8.1%	4.9%	(11.0)%
8.6%	9.8%	8.1%	7.4%	5.7%	(5.0)%
8.9%	9.6%	8.1%	7.6%	6.1%	(4.2)%
3.3%	3.6%	3.6%	4.0%	3.8%	5.0%

STATISTICAL SUMMARY



- Membership Profile**
- Public Entities Participating in SDRS**
- SDRS Benefits Paid**
- Membership by Age**
- Membership by County of Residence**
- Membership by Group**
- Benefit Recipients by Group**
- Historical Views**

MEMBERSHIP PROFILE

All teachers, higher education personnel, and legislative, executive and judicial employees are required to participate in SDRS. Counties, municipalities and other public entities, however, have the option of participating, and school districts may choose whether or not to include their classified employees.

The following schedules list SDRS participating entities by group, the number of active members in each group and each group's percentage of the 37,707 total active members as of June 30, 2008.

Aberdeen	Custer	Harrisburg	Mitchell	South Shore
Agar-Blunt-Onida	Dakota Valley	Harrold	Mobridge	Spearfish
Alcester-Hudson	Dell Rapids	Henry	Montrose	Stanley County
Andes Central	DeSmet	Herreid	Mt. Vernon	Stickney
Arlington	Deubrook Area	Hill City	Newell	Summit
Armour	Deuel	Hitchcock-Tulare	New Underwood	Tea
Avon	Doland	Hot Springs	NorthCentral Coop	Three Rivers
Baltic	Douglas	Hoven	Northeast Ed	Timber Lake
Belle Fourche	Dupree	Howard	Serv	Todd County
Bennett County	Eagle Butte	Hurley	Northwest Area	Tripp-Delmont
Beresford	East Central	Huron	Northwestern	Tri-Valley
Big Stone City	East Dakota Ed	Hyde County	Oahe Special Ed	Vermillion
Bison	Edgemont	Ipswich	Oelrichs	Viborg
Black Hills	Edmunds Central	Irene-Wakonda	Oldham-Ramona	Wagner
Special Serv	Elk Mountain	Iroquois	Parker	Wall
Bonesteel-Fairfax	Elk Point-	Isabel	Parkston	Warner
Bon Homme	Jefferson	Jones County	Pierre	Watertown
Bowdle	Elkton	Kadoka Area	Plankinton	Waubay
Brandon Valley	Emery	Kimball	Platte-Geddes	Waverly
Bridgewater	Estelline	Lake Area Multi	Pollock	Webster
Britton-Hecla	Ethan	Lake Preston	Polo	Wessington
Brookings	Eureka	Langford	Prairie Lakes Ed	Springs
Burke	Faith	Lead-Deadwood	Coop	West Central
Canistota	Faulkton	Lemmon	Rapid City	White Lake
Canton	Flandreau	Lennox	Redfield	White River
Carthage	Florence	Leola	Rosholt	Willow Lake
Castlewood	Freeman	Lyman	Roslyn	Wilmot
Centerville	Frederick Area	Madison Central	Rutland	Winner
Chamberlain	Garretson	McCook Central	Sanborn Central	Wolsley-
Chester	Gayville-Volin	McIntosh	Scotland	Wessington
Children's Hosp	Gettysburg	McLaughlin	Selby Area	Wood
& Schools	Grant-Deuel	Marion	Shannon County	Woonsocket
Clark	Gregory	Meade County	Sioux Falls	Yankton
Colman-Egan	Groton	Menno	Sioux Valley	
Colome	Haakon	Mid-Central Multi	Sisseton	
Conde	Hamlin	Service Coop	Smee	
Cornbelt Coop	Hanson	Milbank	South Central	
Corsica	Harding	Miller	South East Area	

Executive Management
Agriculture
Commerce and Regulation
Corrections
Dept. of Public Safety
Education & Cultural Affairs
Game, Fish and Parks
Governor's Office
Health
Human Services

Labor
Lottery
Military and Veterans Affairs
Revenue & Regulation
Social Services
Tourism & State Development
Transportation
Vocational Rehabilitation
Enviro. and Natural Resources
Attorney General

Public Utilities Commission
School and Public Lands
Secretary of State
State Auditor
State Treasurer
Legislative Audit
Legislative Research Council
Unified Judicial System
SD Investment Council
SD Retirement System

Board of Regents Central Office
University of South Dakota
South Dakota State University
South Dakota School of Mines
and Technology
Northern State University

Black Hills State University
Dakota State University
South Dakota School for the Visually
Impaired
South Dakota School for the Deaf

Public Entities Participating in SDRS

School Districts

Membership: 17,029

**Percentage of total
active members: 45.2%**

Units: 177

Legislative, Executive and Judicial Agencies

Membership: 8,074

**Percentage of total active
members: 21.4%**

Units: 1

Institutions of Higher Education

Membership: 4,273

**Percentage of total active
members: 11.3%**

Units: 1

MEMBERSHIP PROFILE (CONTINUED)

Municipalities

Membership: 3,913
Percentage of total active members: 10.4%
Units: 145

Aberdeen	Corsica	Hayti	Lemmon	Parker	Timber Lake
Alcester	Crooks	Hecla	Lennox	Parkston	Tyndall
Arlington	Custer	Hermosa	Leola	Philip	Valley Springs
Armour	Deadwood	Herreid	Madison	Pickstown	Vermillion
Aurora	Dell Rapids	Highmore	Marion	Pierre	Viborg
Avon	DeSmet	Hill City	Martin	Plankinton	Volga
Belle Fourche	Dupree	Hot Springs	McLaughlin	Platte	Wagner
Beresford	Edgemont	Hoven	Menno	Pollock	Wakonda
Big Stone City	Elk Point	Howard	Midland	Presho	Wall
Bison	Elkton	Hudson	Milbank	Pukwana	Warner
Box Elder	Estelline	Humboldt	Miller	Rapid City	Watertown
Brandon	Ethan	Hurley	Mitchell	Redfield	Waubay
Britton	Eureka	Huron	Mobridge	Roscoe	Webster
Brookings	Faith	Ipswich	Montrose	Salem	Wessington
Buffalo	Faulkton	Irene	Mt. Vernon	Scotland	Spring
Burke	Flandreau	Jefferson	Murdo	Selby	White
Canton	Ft. Pierre	Kadoka	New	Sisseton	White Lake
Castlewood	Freeman	Kennebec	Effington	Spearfish	White River
Centerville	Garretson	Keystone	New	Springfield	Whitewood
Chamberlain	Gary	Kimball	Underwood	Stickney	Wilmot
Chancellor	Gettysburg	Lake Andes	Newell	Sturgis	Winner
Clark	Gregory	Lake Norden	North Sioux	Summerset	Woonsocket
Clear Lake	Groton	Lake Preston	City	Tabor	
Colman	Harrisburg	Langford	Oacoma	Tea	
Conde	Hartford	Lead	Onida	Tripp	

Counties

Membership: 3,808
Percentage of total active members: 10.1%
Units: 64

Aurora	Clay	Shannon	Hyde	McPherson	Spink
Beadle	Codington	Faulk	Jackson	Meade	Springdale
Bennett	Corson	Grant	Jerauld	Mellette	Twp.
Bon Homme	Custer	Gregory	Jones	Miner	Stanley
Brookings	Davison	Haakon	Kingsbury	Minnehaha	Sully
Brown	Day	Hamlin	Lake	Moody	Tripp
Brule	Deuel	Hand	Lawrence	Pennington	Turner
Butte	Dewey	Hanson	Lincoln	Perkins	Union
Campbell	Douglas	Harding	Lyman	Potter	Walworth
Charles Mix	Edmunds	Hughes	Marshall	Roberts	Yankton
Clark	Fall River-	Hutchinson	McCook	Sanborn	Ziebach

Other Public Entities

Membership: 610
Percentage of total active members: 1.6%
Units: 87

Aberdeen Housing	First District Assoc. of Local Gov.	N.E. Council of Govts
American Creek Cons Dist	Grant Cty Cons	Pennington Cty Housing Dev
Assoc School Boards	Haakon Cty Conv Dist	Perkins Cty Cons
B-Y Water Dist	Hanson-McCook Reg Library	Pierre Housing & Redevel
Beadle Cty Cons	Harding Cty Cons	Planning & Dev Dist III
Belle Fourche Irrigation	Hamlin Cty Cons	Potter County Conservation
Black Hawk Water Dist	Heartland Consumer Power	District
Black Hills Local Govt	Hill City Ambulance	Randall Community Water
Brookings County	Hill City Fire Protection	Rapid Valley Sanitary Dist
Conservation Dist	Hot Springs Housing	Redfield Housing
Brown-Marshall Cons	Hutchinson Cty Cons Dist	School Admin. of SD
Brule-Buffalo Cons	Hyde Cty Cons Dist	Sioux Falls Airport Authority
Butte-Meade Sanitary Dist	James River Water	Sisseton Housing
Campbell County	Development Dist	South Brown Cty Cons
Conservation Dist	Jerauld Cons Dist	SD Assoc of Cty Comm
Canton Housing and Redevel	Kingsbury Cty Cons	SD Assoc of Co Officials
Central Plains Water	Lake Madison Sanitary Dist	SD Building Authority
Central SD Enhancement Dist	Lead-Deadwood Sanitary Dist	SD High School Activities
Charles Mix Conservation Dist	Lemmon Housing Authority	Assoc.
Clark Cty Cons	Lennox Housing	SD Housing Authority
Codington Cty Cons	Lincoln Cty Cons	SD Municipal League
Dakota Dunes Improvement	Marshall Cty Cons	SD Pharmacists Assoc.
Dakota Valley Fire	Marshall Cty Hospital	SD Science & Technology
Davison Cons Dist	McPherson Cty Cons Dist	Auth
Day Cty Cons	Metro Communications	Southeastern Council of Gov.
Deuel Cty Cons	Meade Cty Housing & Redevel	Southern Missouri Recycle
East Dakota Water Dev	Milbank Housing	Spink Cty Cons Dist
Edmunds Cty Cons	Miller Housing & Redevel	State Bar of SD
Fall River Water	Mina Lake Water Dist	Walworth Cty Cons
Faulk Cty Cons	Miner Cty Cons	Watertown Housing
Faulkton Area Med Center	Minnehaha Cty Cons	
	Mitchell Housing	



SDRS Benefits Paid

SDRS Benefits Paid by County of Residence

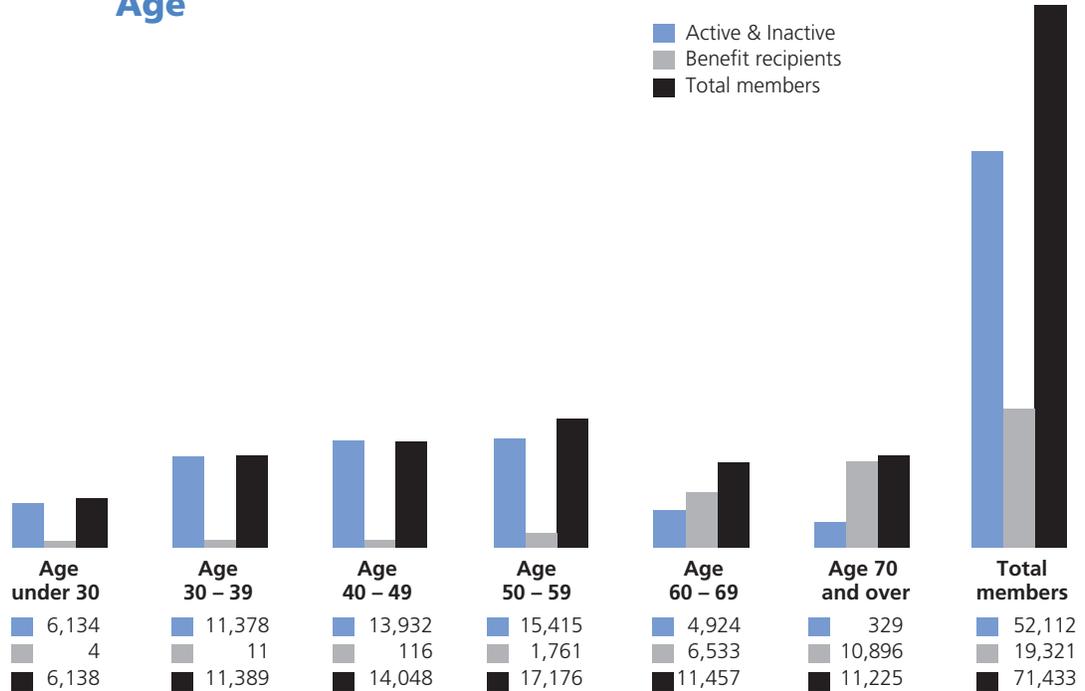
FY 2008			FY 2008		
County	members receiving benefits	Annualized benefits	County	members receiving benefits	Annualized benefits
Aurora	98	1,083,985	Hyde	44	415,092
Beadle	446	6,271,886	Jackson	37	606,338
Bennett	37	424,672	Jerauld	56	658,896
BonHomme	244	2,934,869	Jones	33	443,681
Brookings	1,045	18,429,249	Kingsbury	117	1,448,882
Brown	933	15,188,719	Lake	341	5,320,305
Brule	114	1,545,333	Lawrence	634	10,594,572
Buffalo	5	50,928	Lincoln	237	3,283,118
Butte	201	2,414,686	Lyman	57	880,155
Campbell	42	507,635	Marshall	127	1,647,668
Charles Mix	195	2,509,518	McCook	92	1,260,019
Clark	103	1,015,801	McPherson	65	683,833
Clay	489	8,762,498	Meade	428	6,337,207
Codington	587	10,013,121	Mellette	40	391,104
Corson	33	475,229	Miner	58	639,789
Custer	228	3,244,437	Minnehaha	1,973	38,879,687
Davison	469	7,394,741	Moody	129	1,589,963
Day	177	2,306,309	Pennington	2,089	36,267,833
Deuel	92	838,984	Perkins	70	819,102
Dewey	64	814,007	Potter	83	1,053,786
Douglas	58	678,318	Roberts	196	2,551,391
Edmunds	76	1,068,657	Sanborn	65	760,568
Fall River	229	2,413,353	Shannon	10	128,821
Faulk	113	1,204,525	Spink	360	4,038,007
Grant	175	2,334,857	Stanley	147	2,605,546
Gregory	114	1,437,263	Sully	41	378,746
Haakon	37	461,542	Todd	47	601,317
Hamlin	133	1,723,216	Tripp	143	1,805,466
Hand	89	1,173,236	Turner	186	2,165,398
Hanson	37	440,945	Union	223	3,123,775
Harding	27	232,398	Walworth	176	2,411,108
Hughes	1,113	22,291,808	Yankton	646	9,159,236
Hutchinson	200	2,717,478	Ziebach	16	154,818
Total benefits payable by county			16,969	267,509,432	

SDRS Benefits Paid Outside of South Dakota

State	Members receiving benefits	Annualized benefits	State	Members receiving benefits	Annualized benefits
Arizona	269	4,075,233	Texas	138	1,764,533
California	78	1,025,849	Wisconsin	72	917,373
Colorado	115	1,464,221	Wyoming	88	828,203
Florida	81	1,175,869			
Iowa	153	1,681,692	Other states and foreign countries	712	9,570,392
Minnesota	322	4,099,449			
Nebraska	237	2,548,695			
North Dakota	87	1,013,883			
Total benefits payable outside South Dakota			2,352	30,165,392	
Total benefit recipients and benefits payable			19,321	297,674,824	

MEMBERSHIP PROFILE (CONTINUED)

Membership by Age



Membership by County of Residence

Active, Inactive and Retired Members

County	Total members	County	Total members	County	Total members
Aurora	308	Faulk	327	Miner	212
Beadle	1,326	Grant	498	Minnehaha	9,107
Bennett	169	Gregory	379	Moody	451
BonHomme	796	Haakon	181	Pennington	7,700
Brookings	4,080	Hamlin	540	Perkins	239
Brown	3,216	Hand	249	Potter	250
Brule	441	Hanson	182	Roberts	652
Buffalo	12	Harding	122	Sanborn	223
Butte	868	Hughes	4,413	Shannon	124
Campbell	143	Hutchinson	611	Spink	1,237
Charles Mix	708	Hyde	151	Stanley	613
Clark	330	Jackson	173	Sully	160
Clay	1,976	Jerauld	176	Todd	477
Codington	2,056	Jones	119	Tripp	587
Corson	189	Kingsbury	513	Turner	646
Custer	889	Lake	1,110	Union	922
Davison	1,342	Lawrence	2,374	Walworth	608
Day	507	Lincoln	1,222	Yankton	2,333
Deuel	356	Lyman	281	Ziebach	121
Dewey	394	Marshall	432	Out of State	6,726
Douglas	230	McCook	386		
Edmunds	265	McPherson	197		
Fall River	836	Meade	1,761		
		Mellette	211		

Total membership 71,433



Membership by Group

	Active members			Inactive members			Total members
	Vested	Non-vested	Total active	Vested	Non-vested	Total inactive	
Board of Regents							
Female	962	241	1,203	343	195	538	1,741
Male	1,114	297	1,411	396	211	607	2,018
Total	2,076	538	2,614	739	406	1,145	3,759
County General							
Female	1,268	391	1,659	277	287	564	2,223
Male	1,088	319	1,407	172	209	381	1,788
Total	2,356	710	3,066	449	496	945	4,011
County Public Safety							
Female	95	45	140	10	28	38	178
Male	427	175	602	35	51	86	688
Total	522	220	742	45	79	124	866
Judicial							
Female	9	1	10	0	0	0	10
Male	39	6	45	3	0	3	48
Total	48	7	55	3	0	3	58
Municipal General							
Female	977	331	1,308	259	373	632	1,940
Male	1,417	393	1,810	235	250	485	2,295
Total	2,394	724	3,118	494	623	1,117	4,235
Municipal Public Safety							
Female	27	15	42	2	14	16	58
Male	588	165	753	50	60	110	863
Total	615	180	795	52	74	126	921
Public School & Board of Regents Classified							
Female	4,066	2,108	6,174	1,452	2,059	3,511	9,685
Male	1,387	845	2,232	391	688	1,079	3,311
Total	5,453	2,953	8,406	1,843	2,747	4,590	12,996
State General							
Female	3,032	884	3,916	671	790	1,461	5,377
Male	2,548	636	3,184	469	466	935	4,119
Total	5,580	1,520	7,100	1,140	1,256	2,396	9,496
State Public Safety and Penitentiary							
Female	122	64	186	14	45	59	245
Male	560	173	733	46	108	154	887
Total	682	237	919	60	153	213	1,132
Teachers							
Female	7,008	1,069	8,077	1,934	798	2,732	10,809
Male	2,434	381	2,815	718	297	1,015	3,830
Total	9,442	1,450	10,892	2,652	1,095	3,747	14,639
Grand Total							
Female	17,566	5,149	22,715	4,962	4,589	9,551	32,266
Male	11,602	3,390	14,992	2,515	2,340	4,855	19,847
Total	29,168	8,539	37,707	7,477	6,929	14,406	52,113

MEMBERSHIP PROFILE (CONTINUED)

Benefit Recipients by Group

	Retirement benefits		Disability benefits		Survivor benefits		Total benefits	
	2008	2007	2008	2007	2008	2007	2008	2007
Board of Regents								
Male	841	815	6	5	11	13	858	833
Female	315	297	8	8	209	198	532	503
Total	1,156	1,112	14	13	220	211	1,390	1,336
County General								
Male	574	563	34	34	43	39	651	636
Female	615	595	18	19	285	287	918	901
Total	1,189	1,158	52	53	328	326	1,569	1,537
County Public Safety								
Male	150	139	2	4	1	1	153	144
Female	11	10	2	2	20	21	33	33
Total	161	149	4	6	21	22	186	177
Judicial								
Male	35	34	0	0	0	0	35	34
Female	2	2	0	0	18	18	20	20
Total	37	36	0	0	18	18	55	54
Municipal General								
Male	567	558	23	22	28	26	618	606
Female	376	355	9	9	262	262	647	626
Total	943	913	32	31	290	288	1,265	1,232
Municipal Public Safety								
Male	385	379	10	11	0	0	395	390
Female	5	3	1	2	64	63	70	68
Total	390	382	11	13	64	63	465	458
Public School & Board of Regents Classified								
Male	746	739	32	27	140	132	918	898
Female	2,096	1,982	40	39	286	277	2,422	2,298
Total	2,842	2,721	72	66	426	409	3,340	3,196
State General								
Male	1,638	1,633	42	45	109	102	1,789	1,780
Female	1,489	1,461	55	57	638	632	2,182	2,150
Total	3,127	3,094	97	102	747	734	3,971	3,930
State Public Safety and Penitentiary								
Male	300	285	4	4	2	2	306	291
Female	21	17	2	1	43	47	66	65
Total	321	302	6	5	45	49	372	356
Teachers								
Male	2,016	1,943	16	19	245	242	2,277	2,204
Female	3,990	3,821	38	38	403	380	4,431	4,239
Total	6,006	5,764	54	57	648	622	6,708	6,443
Grand Total								
Male	7,252	7,088	169	171	579	557	8,000	7,816
Female	8,920	8,543	173	175	2,228	2,185	11,321	10,903
Total	16,172	15,631	342	346	2,807	2,742	19,321	18,719



Average Benefits Payments Last 10 Fiscal Years

Years of credited service

Retirement effective dates	0-4	5-9	10-14	15-19	20-24	25-29	30+
Period 7/1/98 – 6/30/99							
Average monthly benefit	509	318	437	714	1,284	1,714	3,172
Average final average salary	30,067	21,093	23,242	26,720	30,665	34,581	48,467
Number of retired members	29	103	100	75	124	112	124
Period 7/1/99 – 6/30/2000							
Average monthly benefit	885	413	527	843	1,186	1,813	2,816
Average final average salary	38,322	25,155	24,330	28,999	31,049	39,787	26,655
Number of retired members	32	89	108	94	118	179	225
Period 7/1/2000 – 6/30/2001							
Average monthly benefit	691	338	512	726	1,132	1,803	2,554
Average final average salary	39,676	25,668	26,329	26,739	31,133	40,507	53,494
Number of retired members	39	93	117	108	106	161	210
Period 7/1/2001 – 6/30/2002							
Average monthly benefit	677	404	573	780	1,215	1,785	2,570
Average final average salary	39,676	25,668	26,329	26,739	31,133	40,507	53,496
Number of retired members	44	89	119	102	120	154	214
Period 7/1/2002 – 6/30/2003							
Average monthly benefit	677	404	573	780	1,215	1,785	2,570
Average final average salary	35,272	27,700	29,531	30,228	34,519	40,621	52,727
Number of retired members	44	89	119	102	120	154	214
Period 7/1/2003 – 6/30/2004							
Average monthly benefit	733	417	595	830	1,198	1,776	2,619
Average final average salary	35,433	28,886	29,247	32,105	37,182	41,587	51,738
Number of retired members	47	105	109	117	135	219	364
Period 7/1/2004 – 6/30/2005							
Average monthly benefit	1,177	502	622	825	1,260	1,693	2,568
Average final average salary	57,530	32,948	30,589	33,492	38,344	42,730	57,744
Number of retired members	65	111	120	112	129	188	246
Period 7/1/2005 – 6/30/2006							
Average monthly benefit	902	569	759	827	1,240	1,761	2,999
Average final average salary	38,816	34,021	37,863	32,169	37,944	42,749	60,793
Number of retired members	48	140	135	117	145	177	268
Period 7/1/2006 – 6/30/2007							
Average monthly benefit	1,314	504	625	888	1,376	1,798	2,433
Average final average salary	59,031	34,464	33,727	36,760	42,499	42,894	52,517
Number of retired members	50	144	136	155	154	186	326
Period 7/1/2007-6/30/2008							
Average monthly benefit	815	627	627	904	1,304	1,908	2,829
Average final average salary	46,315	36,834	33,419	36,097	38,532	44,273	56,589
Number of retired members	57	138	131	140	165	191	318

MEMBERSHIP PROFILE (CONTINUED)

Historical Views

Benefit Recipients and Benefits Paid

Group	2003	2004	2005	2006	2007	2008
Board of Regents	1,137	1,172	1,237	1,288	1,336	1,390
County general	1,425	1,453	1,475	1,513	1,537	1,569
County public safety	129	136	153	159	177	186
Judicial	48	48	46	50	54	55
Municipal general	1,138	1,169	1,179	1,203	1,232	1,265
Municipal public safety	389	410	430	439	458	465
Public school & Board of Regents classified	2,677	2,763	2,900	3,032	3,196	3,340
State general	3,578	3,728	3,780	3,855	3,930	3,971
State public safety & penitentiary	273	293	302	327	356	372
Teachers	5,647	5,857	6,046	6,210	6,443	6,708
Total benefit recipients	16,441	17,029	17,548	18,076	18,719	19,321
Total benefits paid during period	\$200,613,434	\$211,373,732	\$217,550,207	\$234,825,875	\$253,545,120	\$273,236,767
Average benefits paid during period	\$12,202	\$12,413	12,397	12,991	13,545	14,142

Active and Inactive Members

Group	2003	2004	2005	2006	2007	2008
Board of Regents	3,144	3,287	3,403	3,468	3,360	3,759
County general	3,696	3,782	3,857	3,913	3,981	4,011
County public safety	721	746	771	821	827	866
Judicial	58	62	62	58	56	58
Municipal general	3,806	3,891	3,975	4,066	4,169	4,235
Municipal public safety	852	878	876	874	886	921
Public school & Board of Regents classified	10,885	11,279	11,492	11,671	12,707	12,996
State general	8,915	9,118	9,328	9,381	9,374	9,496
State public safety & penitentiary	1,010	1,044	1,069	1,122	1,139	1,132
Teachers	14,406	14,436	14,450	14,490	14,517	14,639
Total active and inactive members	47,493	48,523	49,283	49,882	51,316	52,113



Benefits and Expenses by Type

	Retirement benefits	Disability benefits	Survivor benefits	Refund benefits	Total Benefits & Refunds	Administrative Expenses
Fiscal year 1998	87,649,535	3,350,470	9,699,594	7,114,027	107,813,626	2,055,131
Fiscal year 1999	100,549,552	3,284,394	9,871,299	34,431,120	148,136,365	2,536,815
Fiscal year 2000	118,415,493	3,816,883	11,543,273	26,213,018	159,988,667	2,348,991
Fiscal year 2001	135,507,333	3,999,932	13,685,690	24,227,022	177,419,977	2,403,024
Fiscal year 2002	147,517,321	3,925,986	14,822,332	22,130,027	188,395,666	2,440,353
Fiscal year 2003	161,214,537	4,126,182	15,934,568	19,338,147	200,613,434	2,796,941
Fiscal year 2004	177,038,538	4,129,953	17,285,919	21,414,639	219,869,049	2,493,039
Fiscal year 2005	194,749,213	4,081,290	18,719,704	20,840,323	238,390,530	2,772,121
Fiscal year 2006	210,773,603	4,269,897	19,782,375	25,069,548	259,895,423	2,697,571
Fiscal year 2007	228,311,937	4,070,439	21,162,743	28,777,398	282,322,518	3,033,519
Fiscal year 2008	246,422,506	4,133,578	22,680,683	28,203,655	301,440,421	3,352,380

Changes in Net Assets Last 10 Fiscal Years

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Additions										
Member contributions	55,001,264	58,508,147	62,310,957	66,311,285	80,806,422	104,655,550	89,158,629	82,464,727	86,932,782	91,978,502
Employers contributions	50,069,614	52,622,437	55,697,940	58,544,918	71,989,308	74,854,496	77,474,967	80,829,338	85,361,762	89,766,090
Investment Income (loss) (net of expenses)	591,101,260	490,386,117	(154,774,807)	(248,826,201)	209,901,823	776,890,949	716,237,979	783,993,684	1,426,600,535	(723,013,005)
Total additions to (deductions) plan net assets	696,172,138	601,516,701	(36,765,910)	(123,969,998)	362,697,553	956,400,995	882,871,575	947,287,749	1,598,895,079	(541,268,413)
Deductions										
Benefit payments	113,705,428	133,775,649	153,192,955	166,265,639	181,265,287	198,454,410	217,550,207	234,825,875	253,545,120	273,236,767
Refunds	34,430,937	26,213,018	24,227,022	22,130,027	19,338,147	21,414,639	20,840,323	25,069,548	28,777,398	28,203,655
Administrative expenses	2,536,815	2,348,991	2,403,024	2,440,353	2,796,941	2,493,039	2,772,121	2,697,571	3,033,519	3,352,380
Total deductions from plan net assets	150,673,180	162,337,658	179,823,001	190,836,019	203,400,375	222,362,088	241,162,651	262,592,994	285,356,037	304,792,802
Change in net assets	545,498,958	439,179,043	(216,588,911)	(314,806,017)	159,297,178	734,038,907	641,708,924	684,694,755	1,313,539,042	(846,061,215)

MEMBERSHIP PROFILE (CONTINUED)

Principal Participating Employers

2008

Participating government	Covered employees	Rank	Percentage of total system
State of South Dakota	8,074	1	21%
Board of Regents	4,273	2	11%
Sioux Falls Schools	2,695	3	7%
Rapid City Schools	1,903	4	5%
City of Rapid City	687	5	2%
Watertown Schools	617	6	2%
City of Brookings and Hospital	587	7	2%
Pennington County	582	8	2%
Minnehaha County	501	9	1%
Aberdeen Schools	494	10	1%
All Other	17,294		46%
Total (475 governments)	<u>37,707</u>		<u>100%</u>

1998

Participating government	Covered employees	Rank	Percentage of total system
State of South Dakota	7,353	1	18%
Board of Regents	3,786	2	9%
Rapid City School	1,709	3	4%
Sioux Falls School	1,441	4	4%
Watertown School	581	5	1%
City of Rapid City	567	6	1%
City of Brookings and Hospital	541	7	1%
Pennington County	443	8	1%
Todd County School	435	9	1%
Minnehaha County	405	10	1%
All Other	24,864		59%
Total (431 governments)	<u>42,125</u>		<u>100%</u>



Retired Members by Type and Amount of Benefit

As of June 30, 2008

Amount of monthly benefit	Normal	Early Unreduced	Early Reduced	Disability	Survivor of Active Member	Spouse Option	Survivor of Retired Member	Level Income Unreduced	Level Income Reduced
\$1 – \$250	595	108	1,067	26	33	0	670	1	97
\$251 – \$500	731	140	1,324	86	59	1	578	8	153
\$501 – \$750	485	156	982	54	51	6	382	19	126
\$751 – \$1,000	341	257	686	33	26	15	260	58	122
\$1,001 – \$1,250	270	380	439	46	28	27	188	125	121
\$1,251 – \$1,500	179	443	303	39	27	23	128	163	109
\$1,501 – \$1,750	149	525	180	20	11	9	90	187	79
\$1,751 – \$2,000	117	515	103	13	12	10	55	212	38
Over \$2,000	460	2,244	214	23	23	16	74	1,061	107
	<u>3,327</u>	<u>4,768</u>	<u>5,298</u>	<u>340</u>	<u>270</u>	<u>107</u>	<u>2,425</u>	<u>1,834</u>	<u>952</u>

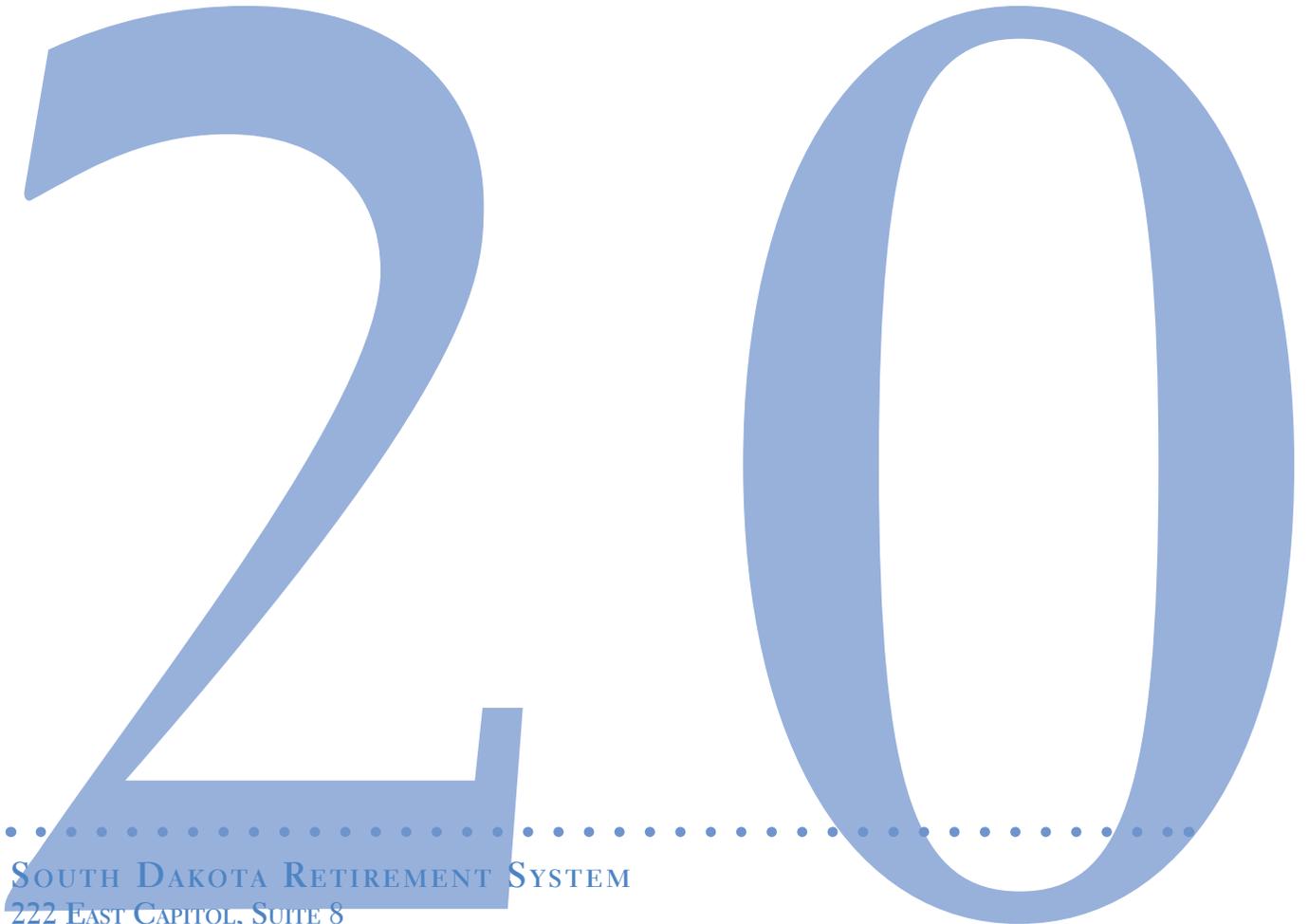


For More Information

For more information on the South Dakota Retirement System, write or call:

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A comprehensive brochure explaining the system's provisions is available on request.



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